The President's Page

The Institute's New Research Program

Basic Concepts of College Accounting

Revenue Rulings of 1959

Estate Planning for Fringe Benefits

legular Departments



Published monthly by
New York State Society
of
rtified Public Accountants
Single Copy 50 Cents
One Year \$5.00

THE NEW YORK

Certified
Public
Accountant

# the busier you are... the more you'll like LAWRENCE!

...because saving your time is such an important ingredient of our service

Most employment agencies do a lot of talking about their screening procedures. We don't. Our careful screening plan speaks for itself... in results.

Results for our clients because it saves them valuable time and produces the kind of high-type, competent personnel they want.

Results for us because it is continually winning new clients and keeping old ones coming back year after year after year.

May we have the opportunity to prove how smoothly it can work for you?

And, of course, we are

#### ACCOUNTANT-STAFFED

-another advantage for you and your clients.

Saurence

personnel service agency

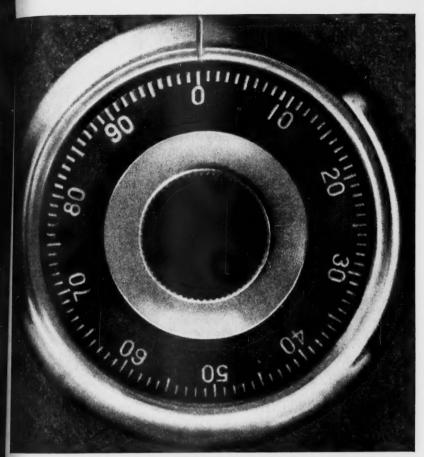
120 W. 42nd Street, New York, N. Y.

FOR OVER 15 YEARS, SERVING THE ACCOUNTANT AND HIS CLIENTS IN THE PLACEMENT OF PERSONNEL IN THE ACCOUNTING, BOOKKEEPING AND OFFICE PERSONNEL FIELDS

Call Mr. Daniel Roberts at BRyant 9-3040







# SAFE COMBINATION

—any business and Meinhard. Why? Because our service is "old line" factoring—not just accounts receivable financing. We buy receivables without recourse for credit failure, handle all collections and bookkeeping. Several of your clients might appreciate your telling them how they can combine their production talent with Meinhard's financial resources and credit know-how. Contact us for full information.

# meinhard

& company inc.

390 4th Ave., N.Y. 16 · OR 9-3380



400 South Beverly Drive, Beverly Hills, California

# attractive, inexpensive ACCOUNTING STATIONERY client-pleaser .

send for free sample

and schedule of reasonable prices.

plastic bound REPORT STATIONERY NO MACHINES NECESSARY THOM F

BEN

WARR

EDW BENJA

WILL

IRVI

ARCHIB.

Managi

BENJAN

GILBER

Editori

RICHAR Chai

OSCAR

ROBERT

ALBER!

GARLA

IRVING

CARL J

FREDE

Copyrig Mate Sc countain offices: York 1 lained otherwis

Į





EXHIBIT SHEETS & REPORT COVERS MAY BE BOUND IN PLASTIC IN OUR OFFICE . . . IN A FEW SECONDS LIES FLAT WHEN OPEN No Machines To Buy Or Rent . Reports Bound Within 30 Seconds



has all

YOUR

CONVENTIONAL **EXHIBIT** SHEETS & REPORT **COVERS** 

**STATIONERY** 

**NEEDS** 

BOND OR ONION SKIN
PAPER. 3-HOLE PUNCHED
OR PEEFORATED FOR FLASTIC
BINDING. ALL COLORS. ALL
SIZES. YOUR NAME IMPRINTED, WITH CHOICE OF
TYPE AND POSITIONS.



Thousands of practicing accountants have been reordering our regular Esskay Bond Exhibit Sheets and Report Covers for many years. They are convinced that they are getting high quality products at reasonable prices. See for yourself.

S-K FORMS CO. 1907 CHESINUT STREET LABOR SAVING ACCOUNTING FORMS

President THOMAS G. HIGGINS, CPA

First Vice President BENJAMIN GRUND, CPA

Vice Presidents WARREN B. CUTTING, CPA FOWARD L. LAWSON, CPA BENJAMIN NEUWIRTH, CPA WILLIAM P. STOWE, CPA

Treasurer IRVING WEINSTEIN, CPA

Secretary SCHIBALD U. BRAUNFELD, CPA

> Executive Director H. P. C. Howe

#### langing Editor

BENJAMIN NEWMAN, CPA

#### luiness Manager

GLBERT DESVERNINE

#### Iditorial Board

RICHARD S. HELSTEIN, CPA. Chairman

OSCAR S. GELLEIN, CPA

ROBERT C. KINGSTON, CPA

ALBERT KRAUTER, CPA

GARLAND C. OWENS, CPA

IRVING SCHREIBER, CPA

CARL J. SIMON, CPA

FREDERICK W. WULFING, CPA

Copyright, 1960, by The New York State Society of Certified Public Acaustants. Society and editorial affects 355 Lexington Avenue, New York 17, N. Y. The matters consulated in this publication, unless observise stated, are the statements and opinions of the authors of the riclet, and are not promulgations by the Society.

#### THE NEW YORK

February 1960

# Sertified $P_{ m ublic}$ $A_c$

No. 2

Volume XXX

The President's Page THOMAS G. HIGGINS, CPA	97
Basic Concepts of University and College Accounting LLOYD MOREY, CPA	100
Devenue Pulings of 1050	113

Revenue Rulings of 1959 (Second and Concluding Part) SAMUEL A. DYCKMAN, CPA

121 **Estate Planning for Executive Fringe Benefits** ABRAHAM J. BRILOFF, CPA

#### DEPARTMENTS

Accounting	News and Trends	84
CHARLES L.	SAVAGE, CPA	

Letters	to	the	Editor	90

# **Book Reviews**

New York State Tax Forum	13
RICHARD H. KALISH, CPA	

Accounting at the SEC	134
LOUIS H. RAPPAPORT, CPA	

Administration of a CPA Pract	ice 136
MAX BLOCK, CPA	

Payroll Tax Notes	140
SAMUEL S. RESS	

n 1 1	TF4*	14
Federal	Taxation	14

RICHARD S. HELSTEIN, CPA, AND THE COMMITTEE ON FEDERAL TAXATION, HERBERT M. MANDELL, CPA, CHAIRMAN

## **Accounting News And Trends**

ELIMINATION OF UNNECESSARY WORKING PAPERS

In his excellent article "Saving Time on Audits by Elimination of Unnecessary Working Papers" (Mass. CPA Review, November 1959) Mr. Arthur Koelbel offers a host of valuable suggestions. Although the importance of working papers cannot be overemphasized, they need contain no more than essential facts and information. To achieve quality rather than quantity in the working papers some methods are:

- Omit certain ordinary or customary analyses where the size or nature of the client does not warrant such analyses or if the amounts concerned are unimportant.
- 2. Use available interim reports and schedules of the client, not only as an audit expedient but as a possible substitute for the usual papers.
- 3. Make use of clients' copying equipment for obtaining copies of important documents, financial statements and schedules, and clients' analyses and computations needed in the audit.
- 4. Carry figures to nearest \$100 or \$1,000, as appropriate, in preparing papers on analytical and statistical studies and reviews.

Accounting News and Trends is conducted by CHARLES L. SAVAGE, CPA. He is presently serving as a member of our Society's Committee on Membership and is active in the National Association of Accountants. Dr. Savage is professor of accounting and chairman of the Business Administration Division of St. Francis College. He is also professor of taxation at the New York Law School.

- 5. Carry forward to succeeding audits detailed supplemental audit programs covering tests of such transactions as sales and payrolls.
- 6. Carry forward from audit to audit certain analyses such as capital stock and surplus accounts and other accounts in which the yearly transactions are few. Where the trial balance is lengthy, it might be typed in the accountant's office or by the client's employees.
- 7. Postpone the taking off of the general ledger trial balance as long as possible to minimize or even eliminate, the number of adjusting entries. Proper arrangement and summarization of trial balance accounts reduces reclassification entries, report-grouping sheets, and tax return grouping. The trial balance can be used for explanations of minor accounts, thereby omitting separate analyses. Numerous detailed property and depreciation accounts, shown in detail in the papers, need not be listed on the trial balance where only the totals could appear.
- 8. Maintain an up-to-date permanent or "carry-forward" paper file to eliminate time wasted in currently making memoranda for working papers regarding matters which have been covered during previous engagements.

mi str Mi

Na Ac ha

TH

Of interest also are these specific suggestions relating to working papers on asset and liability accounts:

1. Cash. Combine cash accounts and eliminate detail. Often the reconciliations of bank accounts can be shown on one sheet by using separate columns. Adding machine tapes can be used instead of listings of outstanding checks. The client can furnish the

J. G. REYNOLDS, PRES-IDENT of J. G. Reynolds Construction Company. THIS REYNOLDS' OFFICE BUILDING comes under the heading of "Future Events."

"... WITH A NATIONAL SYSTEM, we are able to handle the Job Cost and Accounts Payable with one person instead of three."

"Our National System

eding audit trans-

dit to

capital other ansacalance n the lient's

of the ong as elimintries. arizaeduces ouping The

plana-

omitus de-

n acapers. alance

ar.

erma-

file to

rrently

papers

been

ments.

pecific papers

counts recon-

an be

parate es can tstandish the

# saves us \$6,900 a year...

returns 98% annually on our investment!"

-Reynolds Construction Company, Santa Rosa, California

"Our National Class '32' is the best investment we've ever made," writes J. G. Reynolds, President of the Reynolds Con-struction Company, "Now, thanks to our National Accounting Machine, we are able to handle an increasing volume of work

Machine, we are able to handle an increasing volume of work with greater speed and accuracy.

"And by replacing an old hand-posting method with a National System, we are able to handle the Job Cost and Accounts Payable with one person instead of three. Thus, we have eliminated costly overtime and unnecessary salaries. In addition, the information that our National provides . . allows us to bid more accurately on work contracts, thereby insuring us of a better profit.

"We consider our investment in National a sound one. Why shouldn't we? After all, it saves us \$6900 a year . . . and returns \$8% annually on our investment!"

President of Reynolds Construction Company

THE NATIONAL CASH REGISTER COMPANY, Dayton 9, Ohio

1039 OFFICES IN 121 COUNTRIES
76 YEARS OF HELPING BUSINESS SAVE MONEY

Your business, too, can benefit from the time- and money-saving features of a National System. Nationals pay for themselves quickly through sav-ings, then continue to return yearly profit. National's world-wide service organization will protect this profit. Ask us about the National Maintenance Plan. (See the yellow pages of your phone book.)



CPA with copies of bank reconciliations.

- 2. Receivables. Where a listing of account balances is desirable, it can be done by the client. The CPA need not always keep a copy of the accounts receivable listing or of the aging schedule. A summary of the latter is often sufficient. The listing of accounts receivable confirmation requests can be eliminated by using a triplicate copy request form-the original copy for the first request, the duplicate for the second if needed, and the triplicate as the accountant's record. The followup and disposition of the exceptions can be shown on the third copy thereby eliminating a separate listing of the exceptions.
- 3. Inventories. Rarely should it be necessary to have a complete listing of inventory items in the papers, particularly in the larger engagements where summaries usually suffice. The listing of test accounts can, in many cases, be reduced as to the number of accounts and as to the descriptions.
- 4. Property items. Too much detail of property additions and other property items usually appear in the papers. It should often be possible to verify such property items without listings, indicating the work performed and, possibly, listing only major items. Inclusion in the papers of detailed depreciation schedules is frequently not necessary. Depreciation data should be maintained in the form of permanent records or as supporting schedules in the clients' offices.
- 5. Unexpired insurance. If the client has an insurance register, it is quicker and as effective to examine the policies and check them to the register, testing the unexpired premiums from that register rather than making an independent listing and computation. Detailed information as

to the respective policies is usually not useful, but it may be necessary to summarize the coverage in order to judge its adequacy.

sale,

"gro

only

tions

2.

centa

be e

agree

clien

to be

this

are

centa

AUDI

In

of W

ing a

either

or by

has I

accor

many

this '

Audi

Edwa

Resea

versit

has 1

tors

nance

tricts

cedur

been

Com

CPA:

tion 1

shoul

ant er

In ac

biblio

to the

ucatio

count

Syster

pendi

contai

trict a

audit

Th

6. Liabilities. Unnecessarily lengthy details of federal and state unemployment and social security liability accounts, including a separate analysis of each account, often appear in the papers. Despite this detail, however, papers occasionally fail to indicate that any verification was made of the figures shown on the analyses, particularly the ending balances. Many accounts with small balances could be handled by quickly reviewing the account and the significance of the balance, making appropriate notation on the trial balance and omitting an analysis of the account.

# VALUATION OF AN ACCOUNTING PRACTICE

Anyone considering the transfer of an accounting practice should find some helpful ideas in "Valuation of an Accounting Practice" by Clem L. King (*The Canadian Chartered Accountant*, November 1959). Two methods suggested are:

1. A valuation computed as a percentage of gross fees. These are usually averaged over a period of years with provisions being made for the removal of fees from clients no longer with the firm and for the analysis of the profitability of each engagement. The author points out that amounts reputed to have been paid in Canada in the last number of years have ranged from under 75 percent of one year's gross fees to 125 percent, either paid in one amount or over a period of years. In the United States, prices paid are reputed to have ranged from 45 percent to 200 percent of one year's gross Since full information is not available as to the nature of the practices sold, the circumstances of the

sale, and the manner of computing "gross fees," these price ranges can only be regarded as broad generalizations.

y not

y to

er to

igthy

olov-

ac-

lysis

the

ever,

that

ures

larly

unts

dled

and

king

bal-

the

r of

find

fan

ing

ant,

sug-

per-

ally

vith

oval

the

ofit-

hor

to

last

om

OSS

one

In

re-

ent

OSS

not

ac-

the

2. Valuation computed as a percentage of the gross fees expected to be earned by the purchaser over an agreed upon period of years in serving clients to be retained, with the amount to be paid in annual installments. In this method the annual installments are reduced by the appropriate percentage of fees not so retained.

#### AUDITING SCHOOL DISTRICTS

In 1957, the Legislature of the State of Wisconsin approved an act requiring an annual audit of school districts either by the Department of State Audit or by a licensed accountant. This law has had a substantial impact upon the accounting profession in Wisconsin and many accountants are now engaged in this type of audit for the first time. Auditing Wisconsin School Districts by Edward S. Lynn (Bureau of Business Research, School of Commerce, University of Wisconsin, Madison; \$1.15) has been published to acquaint auditors with the laws relating to the finances and accounting of school districts and to suggest auditing procedures applicable in varying situations.

This 71-page booklet, which has been approved by the School Audit Committee of the Wisconsin Society of CPAs, makes an important contribution to the literature in this field and should be in the hands of any accountant engaged in auditing school districts. In addition to a brief but adequate bibliography—which includes reference to the U. S. Department of Health, Education, and Welfare, Financial Accounting for Local and State School Systems, Standard Receipt and Expenditure Accounts, 1957—the study contains three parts: the school district as a client; audit checklist; and the audit report. Naturally, all references



New York 36

# **APPRAISALS**

FOR

- · Tax
- · Accounting
- Insurance
- · Property Ledger Tie-in
- Remaining Life Estimate
- Capital and Expense Distribution Analyses
- Cost Allocations
- · Depreciation Studies
- · Economic Surveys
- Replacement Reserves
- · Proof of Loss

SEND FOR FREE BROCHURE-DEPT. 440

## STANDARD APPRAISAL COMPANY

Div. MARSHALL and STEVENS, INC.

6 CHURCH ST., NEW YORK, N. Y. CORTLANDT 7-4493

LOW COST

# RECEIVABLE FINANCING



Convenient and inexpensive arrangements for additional working capital—for merchandise—post due bills—payrolls and production costs, etc. . . . funds \$5,000 to \$500,000 . . .

MAJESTIC Jaclots ...

The Company that Builds Business
175 Fifth Ave. at 23rd St., Flatiron Bldg. N.Y. 10, N.Y.

Our 25th Year

are to the laws of Wisconsin but the discussion has a general application. (The article "Auditing School Districts in New York State," by Joseph M. Cunningham, in the June 1959 issue of The New York Certified Public Accountant, sets forth in broad terms the New York requirements.)

The audit checklist is particularly helpful. It is an exhaustive outline of procedures which may be utilized, including, in some cases, alternative procedures. The auditor is expected to select from the procedures those which are needed in the circumstances. Unlike the usual firm's checklist, this one contains a great deal of material descriptive of the peculiarities of school district transactions and thus provides the reader with much valuable background information.

STATEMENT STUDIES AND EXTENT OF CPA AUDITS

A report on the source of data received for the 1958 Statement Studies of the Robert Morris Associates appears in that Association's Bulletin for October 1959. The Research Committee of the R.M.A. asked the members (credit-granting institutions) who had submitted the statements whether or not they were prepared from a CPA audit and, if so, to indicate the nature of the opinion. Of those submitting statements, 97 percent replied to this survey.

The survey showed that 68:7 percent of the figures submitted were prepared from CPA audits and 63 percent of these contained an unqualified opinion. The proportion of statements based on CPA audits increased directly with the size of the firm suggesting that larger firms more frequently employ the services of CPAs than do smaller firms. Specifically, 47.5 percent of the firms with less than \$250,000 in assets had their statements audited by CPAs while 94.7 percent of firms with assets in excess

88 • THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT FEBRUARY 1960

of audi
O
ticul
fact
to t
cour
the
Aud

port
it iscond
and
In
cilitie
of I

phas

gram

ing to audit of the Fatial to Since great it is

contr

positi the in make comp facilit the en eratio to bes

opera

pany contro The with these for the partic the n

contai a listi taken and ac structi of 25 million dollars had had CPA audits.

One aspect of this survey of particular interest to accountants is the fact that some confusion still exists as to the nature and significance of accountant's audit opinions. For instance, the phrase "From the Books Without Audit" stamped on an accountant's report is often not recognized for what it is—a disclaimer of opinion.

CONTROL OF FACILITIES
AND INTERNAL AUDITING

It the

ation.

stricts

h M.

sue of

: Ac-

is the

ularly

ne of

d, in-

pro-

which

Un-

s one

l de-

chool

vides

back-

a re-

udies

s ap-

n for

Com-

nem-

who

ether

CPA

ature

itting

this

per-

pre-

rcent

opin-

nents

di-

sug-

fre-

CPAs

cally,

less

their

94.7

xcess

Internal Audit and Control of Facilities, Report No. 7 of the Institute of Internal Auditors, continues that phase of the Institute's research program which is concerned with studying the practices applying to internal auditing and control in various areas of the operating structure of business.

Facilities of some nature are essential to virtually every type of business. Since the cost of facilities is often great, and the life comparatively long, it is customary to find rather stringent controls over acquisition, use and disposition As is developed in this report, the internal auditor is in a position to make a constructive contribution to his company in his audit of controls over facilities. Beyond assuring himself that the existing ones are in effective operation, the internal auditor can bring to bear his knowledge of the physical operations and properties of his company to make suggestions for better

The report is based upon interviews with men from eight companies and these companies provided a broad base for the conclusions of the study. Of particular help is the bibliography and the nine-page appendix. The latter contains detailed outlines setting forth a listing of some of the factors to be taken into account in the negotiation and administration of a cost-plus construction contract.

# Exact Reproduction of TAX RETURNS REPORTS WORK SHEETS

On "Brunings" by experts on premises

\*

Also

## THERMO-FAX MULTILITH MIMEOGRAPHING

Accurate and Attractive

#### **TYPING**

Accountants' Reports Thoroughly Checked Highly Skilled Personalized Service

We will mail our self-addressed envelopes to you upon request. Envelopes are delivered "flat." Mail tax returns to be reproduced in such envelope; we process them soon after receipt, and mail back to you promptly.

# Lillian Sapadin

501 Fifth Avenue, New York 17 (corner 42nd Street)

MUrray Hill 2-5346 - 2-7346

\* Since 1940

## Letters to the Editor

THE CPA AS BUSINESS DOCTOR

The proper functions of the certified public accountant are not limited to the examination of the accounting records: the nature of the services he is qualified to render is such that he can and should be a physician to business. His study, in conjunction with his examination of the accounting records, of the methods of doing business and the controls which management exercises in carrying out its functions, can disclose areas of weakness the correction of which should in many cases restore an ailing business to a healthy condition. Such weaknesses, if not detected and corrected, will, sooner or later, result in death to the enterprise or its absorption by a healthier one. Some of the more common reasons for business failures are incompetence and limited managerial experience.

Many of the factors which bring about unhealthy business conditions become apparent to the CPA when interpreting the financial results through analysis of the financial statements. It is important that he develop statistical information for a period of not less than 3 years (preferably 5 years) for the purpose of using such information in determining trends, and checking this information with industry ratios. Much useful collateral information in this regard can be culled from some of the bulletins published in pamphlet form by the U.S. Small Business Administration. The physician undertakes preliminary tests to determine variations, if any, from established norms, so that he can locate the areas where more thorough examination must be undertaken. Likewise, the

CPA makes certain preliminary tests to establish the variations from norms, if any, and the areas which require more intensive examination.

ing

ma

are

rei

de

is

thr

rec

the

rer

abo

me

ma

ous

bas

ter

-

tha

in

(

is t

if e

end

sen

mir

sav

fati

plas

spre

his

sen

sitti

ing

bee

field

abo

is th

defe

corr

peo

carr

T

Perhaps the most important area of weakness is that of failure to plan business volume ahead for expected sales, purchases and expenses, commonly called the operations budget, supplemented by a forecast of cash receipts and payments, the cash-flow budget. Such forecasting, when done on a monthly basis over a one-year cycle and compared with performance, can enable management to avoid pitfalls into which it will almost inevitably fall when such planning is not undertaken.

We are shocked when our attention is brought to the great loss of life resulting from some disease. The business community should also be shocked at the high loss of life which is brought about by lack of, or improper, planning. Perhaps a realization that help is available may bring about a reduction in business fatalities, provided, of course, management avails itself fully of the constructive assistance so close at hand. Just as periodic check-up by his physician is useful and important to any individual in keeping him alive and healthy, so are periodic check-ups by its independent CPA important to any business, to keep it alive and healthy.

> CHARLES HECHT, CPA (Charles Hecht & Company) New York, N. Y.

DEPRECIATION, CURRENT ASSETS AND THE ADIRONDACK CHAPTER

Probably many of our members belong to the American Accounting Association and, if they do, they have had a chance to read in *The Account-* ing Review, in the October 1959 issue on page 574, the article by Saul Feldman entitled "A Critical Appraisal of the Current Asset Concept."

It is pointed out that current assets are assets which normally will be currently turned into cash. Based on this definition the part of fixed assets which is charged to depreciation gets carried through into cost of goods, accounts receivable, and finally cash. Therefore, there is justification for including current depreciation in the current assets.

tests

orms.

equire

rea of

busi-

sales.

monly

ipple-

ceipts

udget.

on a

cycle

, can

itfalls

ly fall

aken.

ention

f life

busi-

ocked

ought

plan-

help

educ-

ed, of

fully

close

ip by

ortant

alive

k-ups

nt to

and

**CPA** 

pany)

N. Y.

STS

ER

s be-

g As-

have

ount-

Some years ago, we made a speech about this when our upstate conference met at Hulls Inn. This speech was not made with any great amount of seriousness and it was received with the basic idea that the "Adirondack Chapter" was taking the boys over the dam—and I guess he was. So now we see that many a true word can be spoken in jest.

LEONARD HOUGHTON, CPA Saranac Lake, N. Y.

#### THE CPA AS DRAMATIC HERO

Of all professionals, the accountant is the one who is the least glamorized, if ever at all mentioned in any artistic endeavor. The doctor is frequently presented as the hero of a drama-a last minute rush to the operating room to save a life hanging by a thread; a fatiguing battle to arrest a devastating plague; as a country practitioner spreading his cures and humanity to his humble village folk. He is also presented on the canvas by the masters as sitting patiently by the sickbed watching for a crisis to pass. Poems have been written in his honor. Even in the field of humor, stories and anecdotes about doctors are most numerous.

The same is true of the lawyer. He is the hero of the big courtroom scene, defending the innocent, prosecuting the corrupt. He takes up the cause of the people against selfish interests and is carried triumphantly on the shoulders

of his constituents to the state capital as the new governor.

Alas the poor accountant! What is his part in the field of drama? He is usually pictured as a thin, emaciated elderly person, with thick glasses and a green eyeshade, baggy pants, a vest, and shirtsleeves held up by arm garters. He is burning the midnight oil as he stoops his shoulders over the ledger.

It's high time that the CPA too be given his due standing. The accounting profession would be eternally grateful to some talented dramatist who once and for all would dispel the misconception of the accountant type as heretofore pictured, and would present him too in a heroic role.

GERSHEN MARINBACH, CPA New York, N. Y.

# ACCOUNTS RECEIVABLE IN OLD AGE HOMES

A generally accepted feature of accounts receivable accounting is represented by the one-record setup. All data pertaining to one client are entered on one accounts receivable account record. The reasons are obvious and valid. It may be of interest to your readers, however, to learn about one rapidly growing sector in the nonprofit field-old age homes-whose income structure is such as to make the abandonment of this one-record feature practically essential. (The necessity of this change has, however, not yet been fully acknowledged by the entire field.)

These are the sources of income of old age homes:

1. Monthly maintenance payments from relatives, sometimes increased by special service charges or reduced by temporary absences. (Billed at the first of each month.)

2. Social security checks are received once a month (on the 4th). They are fixed as to amounts. (No billing.)

## 1959 STATE INCOME TAX RETURNS

(Due April 15th)

Must now be filed at one of these district offices of the New York State Department of Taxation & Finance:

80 Centre St., New York 13, N. Y.
320 Schermerhorn St., Brooklyn 17
160-08 Jamaica Ave., Jamaica 32
140 Old Country Rd., Mineola
14 Mamaroneck Ave., White Plains
State Office Bldg., Albany 1
184-186 Court St., Binghamton
State Office Bldg., Niagara Sq.,
Buffalo 2

55 Broad St., Rochester 14 333 E. Washington St., Syracuse 2 1500 Genesee St., Utica 4

If there is any doubt about the correct office at which to file, consult Tax Packet IT-201-P or IT-202-P.

NEW YORK STATE DEPT. OF TAXATION & FINANCE

3. Pension, compensation checks, etc. are received in fixed amounts at fixed intervals. (No billing.)

hor

cou

mo

ind

anc

exa

rec

tha

mix

call

tion

age

lect

pra

onl

of '

rity

are

trol

me suff reco

and

the tive are que the

nan be

adn

rece

star

(It

rou

mul

tem

400

4. Court checks are received from domestic relation courts at fixed amounts and variable intervals. (No billing.)

5. Old age assistance checks are received twice a month at specified dates in fixed amounts. (No billing.) Old age assistance (O.A.A.) checks are granted by the New York City Department of Welfare to citizens above the age of 65. (The recipients qualify for such aid if the resources of their families and/or their own pension, social security and other income are insufficient to meet a minimum monthly maintenance rate allowed by the Department of Welfare to the institution.)

At the beginning of each month debit entries comprising the various types of income are made on each resident's account card in old age

# ACCOUNTS RECEIVABLE LOANS



# LOWEST RATES NON-NOTIFICATION

Members of Assoc. Commercial Finance Companies, Inc. and New York Credit and Financial Management Assoc.

LA. 4-7661

**Morton Jolles** 

Serving Your Clients

25 Years

# SERVICE FACTORS CO.

450 SEVENTH AVE. NEW YORK, N. Y.

homes following the traditional accounts receivable setup. During the month each payment is credited on the individual account card and the balance is recomputed each time. Before examining the cost of keeping such records, it may be interesting to note that:

cks.

s at

rom

ixed

(No

are

ng.)

s are

De-

ove

alify

heir

ion,

are

num

l by

in-

onth

ious

each

age

1. The account balances represent mixtures of unrelated components, calling for follow-ups in different directions (e.g., family, social security, old age assistance, etc.).

2. The historical information collected on one account card has little practical significance.

3. The account card has meaning only for the purpose of keeping track of "billed" and variable items.

In view of the fact that social security, old age assistance, pension, etc. are income items fixed as to amount and date of collection, a master control register against which such payments received are checked off is sufficient. The multi-record accounts receivable setup therefore consists of accounts receivable cards for billed and variable items and master control registers subdivided according to the various types of fixed and repetitive payments. The names of residents are listed vertically in alphabetical sequence in the pertinent subsection. On the same line, next to the resident's name, the amount of the payments to be received is entered at the time of admission and a column for each month is made available. A payment received is checked off with a date stamp in the proper month column. (It should be noted that the bulk of these fixed payments are received routinely at specified dates.)

The cost savings resulting from the multi-record accounts receivable system can be readily seen if the monthly posting efforts are compared. In a 400 residents home it has been found

that the savings are considerable as reflected in the following statement:

	Manual Postings	NCR Machine Entries
One-record	4,380	2,650
Multi-record	1,357	727
Difference in monthly postings	3,023	1,923
		-

The following are the same basic objections sometimes raised to the multi-record arrangement:

1. This system makes it difficult to locate the various sources of income pertaining to any resident.

2. It is vulnerable because income items can be lost if not listed.

3. The "whole history" is not available in one place.

A simple control setup can meet these objections, as follows:

1. A financial arrangement card of each resident lists the various sources of income. (Such record is used and referred to whatever the system.)

 A checklist stamped on each resident admission or termination notice overcomes the danger of items not being listed.

3. It may be "nice" to have the whole history in one place because of old working habits. It is unnecessary and therefore too expensive.

In view of the growing number of people covered by social security and by pension arrangements, the resident supported by one family contribution or full O.A.A. payment will disappear in the next few years. The old age home accounts receivable section will be "drowned" unless the one-record system is thrown overboard and a multi-record accounts receivable system is adopted.

STEVEN H. WALDBAUM, CPA (The Hebrew Home for the Aged) Bronx, N. Y.

#### **Book Reviews**

ACCOUNTING FOR OIL AND GAS PRODUCERS

By C. Aubrey Smith and Horace Brock. PRENTICE-HALL, INC., Englewood Cliffs, N. J., 1959. Pages: xvi + 536; \$12.50.

As indicated by the title, the authors of this book have attempted to treat a subject that may be of interest to many readers. They discuss the more important variations of accounting practices found in use today in the petroleum industry and express the hope that the "book will not only serve as a medium for improving accounting policies and practices but also point the way toward greater uniformity and, hence, improved comparability of accounting data among the companies in the industry."

The four introductory chapters—on economics of oil and gas production and operation, geological and geophysical aspects of petroleum production, drilling and producing operations, and organization and work of the exploration and production department—are designed to give the reader a basic understanding of some of the problems facing the oil and gas producer. Other aspects of operations are discussed at fitting places throughout the book. Chapters 5, 6, and 7 cover the accounting organization, accounting practices and policies, and the accounting system. Chapter 6 is of particular interest to accountants; it discusses the diversity in accounting policies and practices existing in the petroleum industry, both for book accounting purposes and for tax purposes. Chapter 8 goes into property interests and special contracts and is supplemented by several standard contract forms, reproduced in the Appendix.

The chapters dealing with specific

accounting policies and practices start with general principles of accounting for plant and equipment and the acquisition of undeveloped properties: other chapters follow with discussions of: geological and geophysical exploration expenditures; amortization and disposition of undeveloped properties: developing and equipping oil properties—the producing properties ledger: authorizations for expenditures and incomplete construction accounts: revenue from oil and gas production; cost of crude oil and gas produced-cost of finding; depreciation of plant and equipment; depreciation and depletion of producing properties; accounting problems in the transfer of oil and gas properties; joint operations on jointly owned or unitized properties; special problems in producing natural gas; and allocation of producing and finding costs to crude oil and gas. Where appropriate in these chapters, various available methods of accounting and diverse policies and practices used for book accounting and for tax purposes are discussed.

The penultimate chapter considers financial budgets and forecasts, pointing out that advance planning is the essential ingredient of successful operations. The final chapter takes up the financial statement and internal reports, including published financial statements and internal accounting reports.

To those who wish to use the book for a course in petroleum accounting the authors indicate in the preface that questions and problems are available separately. Used as a textbook it should be invaluable to the student for its wealth of material. As a guide and reference work for many other people, including, but not limited to, officers and employees of oil and gas produc-

ing companies and independent public accountants and auditors, it should also be highly useful.

Leo W. Hesselman, Jr., CPA (Haskins & Sells) New York, N. Y.

RUDGETING

start

inting

e ac-

erties:

sions

olora-

and

rties:

oper-

dger:

d in-

rev-

cost

-cost

and

etion

nting

d gas

ointly

ecial

; and

iding

here

rious

and

d for

oses

iders

oint-

the

ssful

akes

rnal

ncial

nting

ook

iting

that

able

c it

and ple,

cers

luc-

By Herman C. Heiser. THE RONALD PRESS COMPANY, New York, N. Y., 1959. Pages: x + 415; \$10.00.

This is a book designed and written for the professional accountant or

# Does your client need \*Financing?

Lowest Rates on accounts receivable. Non-Notification.

For 33 years we have specialized in liberal loans on accounts receivable. Simplest handling plans. Loans on machinery, too.

Fidelity Factors

Phone or write Mr. Dworsky FIDELITY FACTORS 1440 BROADWAY, N. Y. LOngacre 5-3908

# BLADES & MACAULAY INSURANCE ADVISERS



Complete Surveys of Corporate Insurance Affairs No Insurance Sold

744 BROAD ST. NEWARK 2, N. J.
Established 1926
MArket 3-7801

management man. The emphasis is directed toward outlining the philosophy and rationale of planning and control and the general techniques to be employed, rather than on the basic detail of data compilation.

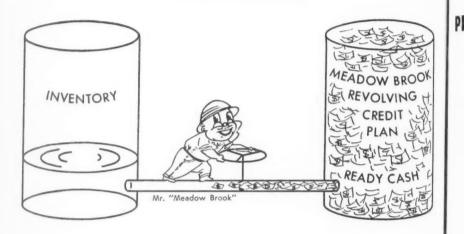
As a work intended to be a treatise on budgeting, this book slants unusually to a major emphasis on developing the cost and controls methods associated with the most effective applications of budgeting, with less emphasis on the budgeting process itself. This should not be interpreted to mean that the budget process is not well explained, but rather that the associated control and analysis techniques are integrated and fully developed in the total exposition.

The book's contents are presented in three general sections: Part I outlines the budget process; Part II develops the subject of flexible costs for variable budgets, and related reporting and analysis of comparative results; and Part III deals more specifically with analysis and control techniques in various segments of the structure of industrial or commercial operations.

Significantly, Part I consists of 104 pages out of a total of 367 pages of text, excluding the appendixes and a detailed subject index. This represents the basic budgeting treatise. But to this reviewer, the chapter on "Flexible Budget Allowances for Cost Control" in Part II and the presentation of specific techniques in Part III are by far the more important elements of the book. Therein lies its virtue for, by means of this emphasis, the author has created a management tool of considerable value, as well as a good working reference source for profesmanagers, accountants and management consultants.

> NORMAN J. ELLIOTT, CPA (Fred Landau & Co.) New York, N. Y.

# A STEADY FLOW OF READY CASH WILL PERMIT YOUR CLIENT TO DO MORE BUSINESS



If additional capital is the answer to your client's problem for buying when the price is right to replenish his stock or raw materials, the Meadow Brook National Bank has the ready cash on "tap" for this purpose. A steady flow of capital from the Bank can be arranged through our flexible revolving credit plan to solve your client's problem.

## FOR FURTHER INFORMATION CALL MR. HENRY DENGEL

IVanhoe 1-9000 - West Hempstead, N. Y.



MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

# THE PRESIDENT'S PAGE

L

# The American Institute's New Research Program

Recently I have been asked a number of questions about the American Institute's new research program. This page is an attempt to state in brief compass the

essentials of the program as I see them.

The basic idea originated with Alvin R. Jennings, who, when he became Institute president in 1957, made an address which concerned itself with the need for dealing more effectively with accounting research and with the development of generally accepted accounting principles. A special committee was appointed which, after considerable work, recommended the revised pro-

gram that has since been adopted.

The responsibility for carrying out the program rests with two groups—an Accounting Principles Board and an accounting research staff. The Board consists of 18 members who have been elected by Council for staggered three-year terms. Most of the Board members are practicing accountants but some are from the field of education and from industry. The Board is now the sole group within the Institute having authority to make or authorize public pronouncements on accounting principles. The research staff is to be headed up by a Director of Accounting Research who will be assisted by senior and junior research accountants. This permanent staff will be supplemented on occasions by temporary personnel obtained from educational institutions, public accounting firms and elsewhere.

The Accounting Principles Board replaced the Institute's Committee on Accounting Procedure which ended its 21-year life on August 31, 1959. This com-

mittee had a creditable career. Its accounting research bulletins are considered highly authoritative by various groups—accountants, industry, the SEC and others.

The new program is designed to meet certain criticisms which have been building up against the profession in recent years. These criticisms came not only from such groups as bankers, investors and teachers of accounting but also from practicing CPAs. There is the feeling that there are too many variations in accounting procedures and that these variations destroy confidence in the reliability of financial statements. It is pointed out that since there exists no statement of accounting principles on which there is common agreement, no one can determine whether or not any particular practice is or is not in conformity therewith.

Twice during its career, the Committee on Accounting Procedure considered seriously the preparation of a statement of accounting principles. On both occasions, however, it rejected the idea really for two reasons—first, the long time it would take to prepare such a statement and, next, the question as to the feasibility of preparing a statement of principles that would be comprehensive enough to serve as a practical guide. As an alternative, the committee decided to direct its efforts to specific topics.

The new Board is well aware that the general purpose of the Institute in the field of financial accounting should be to advance the written expression of what constitutes generally accepted accounting principles and that the broad problem requires attention on four levels—postulates, principles, rules or guides for the application of principles in specific situations, and research.

Statements of the new Board will ordinarily be based on fairly exhaustive studies prepared by the research staff. These studies will be given wide exposure and will state the opposing views and reasoning. It is believed that greater efforts to ascertain the views of interested parties will help to accelerate the development of accounting principles. It is also believed that placing the main burden of work on a permanent organization—the research staff—should speed things up as compared with a committee which inevitably works slowly.

Many complex problems in financial accounting are pressing for solution. Here are just a few examples. Should financial statements be adjusted for price level changes? Should obligations for future payments under long-term leases, whether or not they are with controlled interests or are armslength transactions, be shown as a liability? Is it possible to have more uniformity in accounting for costs resulting from

employee pension plans? May we describe procedures required by regulatory commissions which differ from those followed by other kinds of business as being in conformity with generally

accepted accounting principles?

The job to be done will take time and we will all need patience. Many of the problems are highly controversial. While it is human nature to seek certainty, it seems unlikely that anything like complete uniformity will ever be attained. Conditions vary greatly from company to company and the judgments of both managements and accountants are bound to differ even when applied in the same circumstances. The research program, however, should narrow very considerably the areas of differences that now exist.

THOMAS G. HIGGINS,

President

# **Basic Concepts of University** and College Accounting

By LLOYD MOREY, CPA

In dealing with the underlying principles of college and university accounting, the author points up the logic supporting such distinctive features as fund accounting, subdivisions of current income and expenditures, modified accrual accounting, depreciation and accounting for fixed assets. It is the author's thesis that the accounting principles applicable to colleges and universities have been so firmly established and widely held that they may be regarded, for reporting and other purposes, as generally accepted.

Few areas of financial operation have had longer or more competent study of accounting and reporting problems than colleges and universities. As a result, well-defined principles and procedures have been developed which have been tested by usage and have become generally accepted.

Thirty years ago, the accounting officers of colleges and universities formed a national committee to develop standards of uniform financial reporting for such institutions. In 1935, its report entitled "Financial Reports for Colleges and Universities" (now out of print) was released. Its work was supplemented for the succeeding

five years by the Financial Advisory Service of the American Council on Education which issued a series of bulletins interpreting and amplifying the Committee's findings. this and com

1952 the

as Versideal

audi soon busi

T

char

stan

and

In c

proc

vate

the !

opec in g

whic

need

these

and

are i

ally

FUN

T

diffe

"The

bala

men

of a

port

certa

avai

with

body

it re

priva

for s

Volu

W

The recommendations of this committee were accepted by the U. S. Office of Education and by numerous educational agencies. They were applied in substance by the preponderance of higher educational institutions of all types and sizes. Thus they became the "generally accepted" standards for reporting in this field.

In 1938 a second committee of business officers was organized as the National Committee on Preparation of a Manual on College and University Business Administration. Its original purpose was to prepare a supplementary volume on subjects other than accounting and financial reporting. Its progress was delayed by World War II and it did not get under way actively until the late 40's. By that time the need had developed for a review and reprinting of the 1935 volume. For

LLOYD MOREY, CPA, is president emeritus and professor of accounting emeritus and former comptroller of the University of Illinois. Dr. Morey, who served as chairman of the National Committee on Standard Reports for Institutions of Higher Education, is the author of "University and College Accounting" and numerous other books and articles.

this purpose the Committee requested and received the assistance of a special committee of the American Institute of Certified Public Accountants. In 1952, the new volume was issued by the American Council on Education as Volume 1 of "College and University Business Administration." It deals with accounting, reporting, and auditing. A second volume followed soon thereafter dealing with general business subjects.

The new volume made relatively few changes in the basic principles and standards set forth in the 1935 volume and by this time quite widely adopted. In certain respects they differ from the procedures generally followed in private, profit-seeking concerns. It is for the latter that "generally accepted accounting principles" have been developed by the accounting profession and in general accounting literature, and which are adapted particularly to the needs of such undertakings. What are these differences, why do they exist, and what is their justification? What are the answers to questions occasionally raised concerning them?

#### FUND ACCOUNTING

orv

on

of

ing

m-

S.

Suc

ap-

er-

ons

e-9c

ıd-

Si-

he

of

ity

nal

le-

an

Its

II

ely he

nd

OF

The first and most basic of these differences is in accounting for funds; "The accounts should be classified in balanced fund groups and this arrangement should be followed in the books of account and in the financial reports," 1

While an educational institution has certain income that is unrestricted and available for any use in accordance with the judgment of its governing body and administrators, much of what it receives is specified by others—private donors or public agencies—for specific uses. In some instances it

is expendable for certain operating purposes; in others, it is to be applied to a "capital" purpose as an addition to the physical plant or facilities of the institution; in still others, it is to be an endowment, the principal of which is to be kept inviolate, the income only to be used, or a loan fund, the principal of which may be loaned to students and recoverable from them. In each of these various instances of restriction, a separate fund is in fact created. The meaning of "fund" in this respect is important, and involves a marked difference from its ordinary usage in commercial accounting in accordance with the following definition of the term:

An accounting entity established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. In institutional accounting the term includes assets, liabilities, reserves, principal, and balances.<sup>2</sup>

To carry fund accounting to its full extreme would involve a separation of cash, investments, and other assets of each fund, which in earlier years actually was done. Recognizing the practical difficulties of such an extreme where vast numbers of special funds are involved, the committee recommended "groups" of like funds, the following being the most common: current funds; (a) general, (b) restricted; loan funds; endowment and other non-expendable funds; annuity funds: plant funds; agency funds. Only current general funds are completely unrestricted and the balance of such funds constitutes a "surplus" in the ordinary meaning of that term. Even within this group, many institutions separate the funds relating to auxiliary institutional enterprises, thus creating internally restricted funds. But as to every fund restricted by outside sources,

<sup>&</sup>lt;sup>1</sup> American Council on Education, College and University Business Administration, Volume 1, 1952, p. 16.

<sup>&</sup>lt;sup>2</sup> Ibid., pp. 139-40.

no system of merging for accounting or investment convenience can be permitted to destroy or commit, either temporarily or permanently, the integrity of the individual fund in accordance with the purpose under which it was accepted.

This obviously is a different procedure from that commonly followed in accounting for private business where few if any incomes or resources are earmarked for special purpose. When they are, assets are not segregated as a separate accounting entity, but only by earmarking them for a special purpose and offsetting them by special reserve accounts. Generally, all assets and liabilities are listed with the difference set forth in appropriate capital and surplus accounts, all of which represent equities of the owners and together constitute the net worth of the enterprise. No such single figure exists in an educational nor, for that matter, in any non-profit enterprise.

This procedure is fundamental to proper reporting for colleges and universities. It is important that the different types of funds be shown separately to the extent they exist in an institution. Consolidation of assets and liabilities of all funds, with balances of the various funds or fund groups, is not an adequate presentation and might lead to improper use of assets belonging to specific funds. Even though cash of various types of funds is pooled for investment purposes, the equity of each fund group in the pool should appear in its balance sheet, and funds of different types should not be consolidated in the balance sheet.

The committee volume sets out the principles of management and reporting of the various types of funds, each of which has certain features peculiar to itself. Some of these will be discussed later.

An important feature with respect

to the segregation of restricted from unrestricted resources is the necessity for the separation of income and expenditures for *current* purposes from those which are restricted for use for *plant* additions, and the separation of the equity represented by investment in plant from that of expendable funds. These also are procedures different from those of commercial accounting.

is a

of I

ACC

lege

ing

pro

acci

a m

the

Si

in e

stew

trust

dete

item

A

acci

inte

obli

is n

it is

siste

suit

pen

tere

able

don

it is

tion

not

tion

acco

long

Con

poli

adeo

and

duri

pens

mus

to c

It

C

I

# SUBDIVISION OF CURRENT INCOME AND EXPENDITURES

A second major standard of college and university reporting is the subdivision of current income and expenditures as to:

- 1. Educational and general; income designated for or applicable to instruction, research, public service, library, plant operation, and administration, and expenditures therefrom.
- 2. Auxiliary enterprises; activities operated by the institution as a service to its educational program and personnel, usually self-supporting: residence and dining halls, bookstores; other fully or partially self-supporting activities such as intercollegiate athletics.
- 3. Other activities outside the general educational program; student aid, annuities, etc.

Subsidiary to these major classifications are broad analyses of income by principal sources, and by funds as to restricted income, and expenditures by functions and activities and by funds. Such classifications of both income and expenditures are of prime significance in giving a suitable picture of the varied operations of an educational institution, and especially in determining its educational finance operations. It lacks a counterpart in private business concerns where all income is available for any use in the business and where a simple object classification of expenses

is adequate, leading to a single figure of net income or loss.

#### ACCRUAL BASIS OF ACCOUNTING

rom

ssity

ex-

rom

for

n of

nent

nds.

rent

ing.

lege

bdi-

ndi-

ome

ruc-

arv.

ion,

ities

vice

per-

esi-

res:

ting

ath-

en-

aid,

ica-

by

to

by

ids.

and

nce

ried

on,

du-

is a

onfor

e a

ses

Another distinctive feature of college and university accounting, differing from that necessarily followed in profit-seeking concerns has to do with accruals: "Accounts should be kept on a modified accrual basis." 3

In support of this recommendation the committee says:

Since the primary purpose of accounting in educational institutions is to report on the stewardship of the funds and property entrusted to the institution rather than to determine net profits and net worth, some items of income need not be accrued and certain expenditures need not be prorated.<sup>3</sup>

As an example of an undesirable accrual of both income and expense, interest on investments and on debt obligations may be cited. Such income is not available for expenditure until it is realized. Accounting for it consistently on a cash basis is the most suitable procedure. As to interest expense, provision must be made for interest actually becoming due and payable during the period. When that is done, it is not an advantage—in fact it is a disadvantage—to set up additional accrued interest expense which is not payable within the current period.

Other examples showing a variation from strict accrual and deferred accounting would be student fees and long-term insurance premiums paid. Conditions call for a conservative policy on accruals of income, and an adequate coverage of costs of services and materials received and consumed during the period, but including all expenses for which monetary provision must be made during the period.

It is not impossible for an institution to carry out a full accrual system. To

do so it must have adequate working capital to cover accrued income not collected but taken into income, and expenses paid but deferred to a future period. Otherwise it might find itself unable to use the income it budgeted as expected and recorded as if realized. Some institutions, mostly private, are able to do this and when it is done consistently no objection can be raised. But it is not essential, and in some circumstances it is a disadvantage.

A full and consistent accrual system is desirable for self-supporting auxiliary enterprises of a quasi-commercial character, irrespective as to the procedure followed in the educational accounts. This is essential to determine the true results of operations from a profit and loss standpoint. Examples are bookstores, dining services, and housing operations. Such a selective procedure for accrual accounting is not dissimilar to that recommended by the Comptroller General of U. S. for government agencies.4 Deferral of prepaid income and accrual of current year's matured but unpaid obligations are of course essential.

A related principle provides that "current restricted receipts should be reported as income only to the amount expended during the year." In other words, unexpended balances of restricted funds should be treated as deferred income until expended.

Gifts, grants, and other income restricted as to use frequently cover more than one year in their expenditure. To report such items as income in the year received would distort income and might result in taking up as income amounts subject to return at a later time if not used. Only the amount expended should be so reported, the

<sup>3</sup> Ibid., p. 21.

<sup>&</sup>lt;sup>4</sup> Comptroller General Accounting Principles Memorandum No. 3, Oct. 18, 1957, p. 3.

<sup>&</sup>lt;sup>5</sup> American Council on Education, op. cit., p. 11.

balance being carried forward as, in effect, a deferred income item.

#### SALE OF INVESTMENTS

Another significant principle related to accounting for income deals with application of profits and losses: "Realized gains or losses on the sale of investments (of endowment or other non-expendable funds) should be carried to the principal of the funds involved or to an appropriate reserve account for pooled investments. Gains from the sale of assets of this fund do not constitute income."

Both of these cases, for good reasons, represent departures from ordinary commercial practices.

#### CONTINUOUS BUDGETARY CONTROL

Still another feature of university and college accounting, which is common to most governmental bodies and many other non-profit institutions but not to business generally, is that of continuous budgetary control. The National Committee does not include this as a basic standard but does present a complete chapter on it in Volume I, in which it recommends adequate budgetary records of obligations entered into and outstanding. It also presents a method of incorporating such records into the general accounts and reports if that is desired.

Many institutions follow the procedure of centralized control described by the committee. Others decentralize this responsibility by placing it at the point where obligations initiate, through such methods as are approved by the central office. Few institutions fail to follow some method, formal or informal, centralized or decentralized, of keeping informed where they stand continuously on all budget authorizations on a free (unencumbered) balance basis. Effective budget administration is possible only by some such plan.

#### PLANT INVESTMENT AND DEPRECIATION

Another important subject in which the treatment in college and university accounting differs substantially from that commonly followed in commercial business enterprises is that of depreciation. On this point the 1952 committee sets down the following principles: "Plant items should be carried in the accounts at cost until disposed of . . . The necessity for providing for renewals and replacements of property and of charging depreciation depends on the class of property under consideration."

tic

the

Spe

pa

ice

Th

cor

lier

lies

col

and

few

fro

tice

res

mei

and

cati

are

ticu

sary

clud

as a

1

ers

tal

to in

tain

men

lic g

case

or w

expe

aside

its re

coun

dispo

pend

loss

tion,

exists

ices

Such

client

recov

opera

only

In amplification of the latter principle the committee makes the following points.

(a) Since, in general, the property used specifically for the educational functions of the institution was initially provided by gifts, grants, or legislative appropriations, and since such property is ordinarily replaced in like manner, it is not necessary to accumulate funds out of current income for renewals or replacements.

(b) It is desirable to make provision for renewals and replacements of institutional service property and of property used for auxiliary or other income-producing activities. The necessity for making such provision will depend upon the financial program of the institution.

(c) It is essential to provide for depreciation of real property held as investments of the endowment funds. A depreciation reserve, to be effective, requires a periodical transfer of cash from income to principal. This depreciation reserve should be included in the endowment funds group as a deduction from the related asset.

(d) If replacement reserves for institutional property are created, they should be represented by cash or other liquid assets included in the plant funds group. A reserve account for replacements resulting merely from a journal entry without transfer of cash serves no useful purpose.<sup>8</sup>

These procedures and the reasons supporting them are substantially iden-

<sup>6</sup> Ibid., p. 18.

<sup>7</sup> Ibid., p. 20.

<sup>8</sup> Ibid., pp. 20-21.

tical with the conclusions reached by the 1935 committee. In fact, the 1952 volume included as an appendix a special statement on depreciation prepared by the Financial Advisory Service to supplement the 1935 volume. They correspond generally with the conclusions reached many years earlier by Trevor Arnett, one of the earliest writers on college finance and accounting,9 and by many other authors and students of the subject. While a few institutions depart more or less from these recommendations, the practice in the overwhelming majority corresponds to them. Although the statements of the committee are definite and self-explanatory, further amplification of the premises on which they are founded may be worth while, particularly as to why it is both unnecessary and usually impracticable to include depreciation on educational plant as a current operating cost.

ich

ity

mc

ial

ci-

m-

in-

ar-

lis-

ro-

nts

ia-

rty

in-

W-

ised

s of

by

ons,

sary

ome

for

for

tivi-

ovi-

ram

pre-

ents

tion

dical

ipal.

duc-

stitu-

d be

ssets

serve

erely

r of

sons

den-

1. In educational institutions, owners do not supply the necessary capital or investment and do not look to income to recover. Institutions obtain funds for educational plant investment chiefly from private gifts or public grants or appropriations. In neither case is there any obligation to amortize or write off the investment over the expected life of the asset, or to set aside from current income funds for

its replacement.

2. The objective in educational accounting is to show the source and disposition of funds available for expenditure, and not whether a profit or loss has resulted. Little or no relation, and rarely any direct relation, exists between charges made for services and the cost of those services. Such institutions and their interested clientele are not concerned with the recovery of cost or with profit from operations in a commercial sense, but only with the purpose and manner in

which funds acquired by them have been applied.

3. Institutions must provide out of current income from gifts, public appropriations, or other income, funds for essential replacements and rehabilitation of fixed assets. To provide also for depreciation on a uniform basis would result in a double charge against income at a sacrifice of the needs for current educational purposes, and, if increased tuition were required, would constitute discrimination against those generations of students called upon to pay this additional charge.

4. Funds for current expenses of colleges and universities are provided in private institutions largely by earnings on endowment gifts or by current expendable gifts, and in public institutions mainly by public grants or appropriations. To enter depreciation as an operating expense would mean in private institutions that those gift funds for current expenses are used to amortize the cost of fixed assets pro-

vided by other private gifts.

5. Public appropriations ordinarily are made for disbursement within the fiscal period for which they are made. To enter depreciation as an operating expense would mean that such funds could not be fully disbursed within the period and hence might be lost to the institutions. Legislatures and city governments are not likely to appropriate funds for depreciation in view of the demands on them for appropriations and their antipathy to large reserves on the part of any governmental unit asking for funds.

In summary, the institutional plant was secured from special sources of funds such as gifts or appropriations. It is reasonable to assume that it will be replaced from similar sources. To charge current operations with depreciation has the effect of charging

<sup>&</sup>lt;sup>9</sup> College and University Finance, 1922, pp. 56-7.

against income expenses unrelated to that income which will ultimately be met from another source. In other words, the principle of applying relevant costs against relevant revenue would be violated.

#### USES FOR DEPRECIATION

The statements of the committee represent, not, as some writers have suggested, a "disclaimer" of depreciation, 10 but rather a selective and practical application of it with full consideration of the circumstances involved.

There are some points in college and university finance where accounting for depreciation is needed or may be useful. In the first place, it is essential in the case of depreciable real property held as assets of endowment funds, so that the principal of the investment will not be impaired through wearing out of property without equivalent value being recovered. Secondly, in the operation of residence halls, food services, bookstores, and other auxiliary activities of a business character, an accounting for the allocation of cost of the plant asset is needed in order to show whether they are in fact paying their own way and whether the rates charged cover the full cost. Both of these situations differ from the use of educational plant. latter case particularly, there is a direct relation between revenues and costs. Such accounting should be accompanied by the setting aside of funds for use in replacement. Whether such reserves include the complete plant—buildings as well as equipment -will depend on institutional policy. If the financial policy calls for replacement of the entire plant from income, then such charges and reserves would be essential. If not, they do not extend beyond provision for replacement of

equipment and keeping the building in usable condition, generally equivalent to that when first occupied. This is usually the policy when the funds for the original building came from state appropriations or gifts.

stitt

Dep

sign

the

mis

dep

por

pen

pen

in t

repo

bud

cult

has

fund

to (

tion

mer

duc

CON

DEP

I

has

prec

prin

criti

пип

be i

So

even

fuli

be b

acco

ciati

theo

tribi

if n

no i

need

ing-

and

can

in th

such

The

I

Many institutions follow the plan of using net income of auxiliary activities to help balance the educational budget. When this is done, it is all the more important that funds be reserved for adequate maintenance of buildings and for equipment replacement in such enterprises. Otherwise, when such expenditures inevitably have to be met, they would be a drain on educational income at the time required.

It is now a very common practice for colleges and universities to secure funds for residence halls and other auxiliary income-producing enterprises by borrowing to be repaid out of new income. When this is done, obviously such income cannot be expected to meet both the amortization of present facilities and provision for paying the indebtedness incurred in securing them. Hence, provision for depreciation or replacement other than essential maintenance and replacement of short-lived equipment is generally omitted in both indentures and in accounting. This does not stand in the way of calculation of operating results by including depreciation but omitting debt service.

It is sometimes proposed that journal entries be made in the plant investment section of the accounts, debiting Investment in Plant and crediting Reserve for Depreciation. The latter item would then be deducted from the asset item for Plant in the balance sheet. Such an entry serves no useful purpose. The chief item of interest to trustees, donors, taxpayers, and the general public in connection with permanent property of an educational in-

<sup>&</sup>lt;sup>10</sup> William J. Vatter, "Nonprofit Organizations" (correspondence), The Journal of Accountancy, June 1958, p. 23.

<sup>106 •</sup> THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT FEBRUARY 1960

stitution is the amount *invested* in it. Depreciated value is of no particular significance, and to have it appear in the reports is confusing and may be misleading.

g in

lent

s is

for

state

n of

ities

lget.

nore

for

and

such

ex-

met.

onal

etice

cure

ther

ises

new

usly

to

sent

ving

ring

cia-

sen-

of

mit-

ac-

the

ults

ting

our-

in-

de-

dit-

lat-

om.

nce

eful

t to

the

oerin-

01

It is especially unfortunate to have depreciation shown in a financial report of the management or the independent auditor as an operating expense when it has not been included in the budget. When this is done, the reports are not in harmony with the budget and comparison is made difficult. Unless provision for depreciation has been made in the budget and funds reserved out of current income to cover it, the inclusion of depreciation in the auditor's financial statements is highly undesirable and reduces the usefulness of such reports.

# COMMENTS ON ARGUMENTS FOR DEPRECIATION ACCOUNTING

In spite of the thoroughness which has been accorded the subject of depreciation, and the unanimity in both principles and practice, questions and criticisms have arisen from a limited number of sources. Some of these may be cited and commented upon.

Some accountants and others hold that even though rates are not intended to cover full cost, the fact that they do not should be brought out; and that results cannot be determined without taking depreciation into account.<sup>11</sup>

The recording or reporting of depreciation on educational properties theoretically computed does not contribute to finding of "full costs," even if needed. Such a computation is of no value in meeting the fundamental needs of college and university reporting—the application of funds received and administered. No significant use can be made of "results" determined in this manner. As a matter of fact, such procedure is confusing and mean-

ingless and lacking in value in administration or for public information, as indicated by the foregoing discussion.

It is argued by some that depreciation takes place in educational plant just the same as in the service plant, or in manufacturing or other commercial enterprises; that since this is the case, it should be recorded and included as a cost. The extent of physidepreciation is in no sense measured by the ordinary methods of computing and recording depreciation. The purpose of such procedure is not to determine the period-by-period valuation of property, but to provide an orderly method of recovery out of revenue of capital invested in privatelyowned, profit-seeking concerns. Since this requirement is not present in non-profit enterprises, it is out of place to follow such a procedure. The inclusion of a charge relating to depreciation should be for the purpose of accumulating funds for future replacement, and hence to be effective should if done be accompanied by a cash reserve of such funds.

Some writers argue that for an institution to include depreciation even if it results in a deficit will aid in securing added contributions or other financial support, or in justifying increased charges.12 No proof of such allegation can be found. Student fees are rarely if ever set in direct relation to costs, and this should not be done. Many other factors are taken into consideration. Institutions seek funds from gifts and public appropriations for two purposes: current operations, and additions to or replacements of plant. Current operations are maintained by expendable gifts, by income from endowments and tuition, and (in public institutions) by governmental appropriations. They are not intended

12 William J. Vatter, op. cit., p. 23.

<sup>&</sup>lt;sup>11</sup> Samuel J. Broad, "The Applicability of Generally Accepted Accounting Principles," The Journal of Accountancy, September 1957, p. 33.

nor should they be expected to provide for amortization or replacement of plant. Contributions and appropriations are not based on whether or not depreciation is included as a cost, but on a showing of the need for funds to meet current expenditures or capital additions.

Another argument in favor of full depreciation recording is: "The absence of a profit motive does not necessarily preclude the determination and reporting of resources available and utilized on a period basis." <sup>13</sup>

Of course it does not "preclude" inclusion of depreciation but nothing is gained by doing this; in fact, many disadvantages accrue. The ordinary depreciation procedure adds nothing to the presentation of "resources utilized." It represents no accurate computation of plant investment used up. The procedures recommended by the committee include a full reporting of plant assets "utilized" during a period, and of the sources of funds for that investment. Any item of plant removed from service is reported as a No benefit comes from computing and entering a theoretical depreciation figure. The basic questions are answered by the recommended methods of reporting: What investment is represented by plant now in use? and, what were the sources of funds for that investment?

It is alleged that there is inconsistency in accounting for depreciation on some types of plant and not on all, including educational plant.<sup>14</sup> This argument also is ill-founded. Investment of endowment funds in real property must be protected against diminution. Income from such investments includes provision for depreciation. This provision properly is set aside

out of income to protect the original investment. As already indicated, a similar reason applies to plant used for auxiliary services. Such needs do not apply to educational non-income producing plant.

un

in

an

ter

pre

Wi

on

me

tio

to

ati

for

pro

wh

dic

sta

ing

cor

Re

of

pre

but

app

bui

late

cha

ext

cas

rev

fixe

He

foll

tho

acc

acc

to

are

bus

me

acc

son

pro

of

han in

1

Some persons point to hospitals as an illustration of nonprofit organizations which do record depreciation and argue that because this is the case, colleges and universities should do likewise.15 This argument lacks validity. In the first place, while the practice is recognized more positively in this area and quite a number of hospitals attempt to follow this procedure, this is by no means universal. There is also considerable variation in method. No generally accepted or acceptable pattern has yet been devised. Secondly, there is a much closer relation between costs and charges for service in hospitals than in the educational programs of colleges and universities.

The fact is frequently overlooked that in the great area of municipalities where applicable principles of accounting also have been definitely established and are generally accepted, depreciation is dealt with on a selective basis much as in educational institutions. In general government operations of cities as well as states, public schools and others, it is commonly omitted. In the federal government, where in recent years considerable has been done toward putting accounting more nearly on a cost basis, the General Accounting Office has indicated that depreciation is to be applied "when a regular determination of the cost of all resources consumed in performing work or carrying out an activity is needed."16 Examples given would not be of the nature of educational services in a college or

<sup>&</sup>lt;sup>13</sup> Robert L. Dickens, "The Formulation of Accounting Principles for Nonprofit Organizations," The New York Certified Public Accountant, June 1958, p. 408.

<sup>14</sup> Ibid., p. 407.

<sup>15</sup> William J. Vatter, op. cit., p. 23.

<sup>16</sup> Comptroller General Accounting Principles Memorandum No. 3, op. cit., p. 5.

<sup>108 •</sup> THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT FEBRUARY 1960

university. The Defense Department, in its principles governing accounting and reporting for operation and maintenance appropriations, states: "Depreciation of facilities and equipment will be budgeted and accounted for only where a valid, recurring, management need exists for this information." Such a need has been found to exist chiefly in industrial fund operations (e. g., manufacture of facilities for various units or departments).

zinal

d, a

used

s do

ome

s as

iza-

and

col-

ike-

lity.

tice

this

itals

this

e is

od.

able

dly,

een

spi-

nms

ked

ties

ac-

es-

ted.

lec-

in-

op-

tes.

m-

rn-

er-

ac-

sis,

in-

ap-

ion

ned

out

les

of

10

ıni-

That depreciation on educational property is considered and applied wherever a reason exists for it is indicated in the fact that it is in substance provided for in the rules covering government cost-reimbursement contracts with educational institutions. 18 Recognizing that the general practice of such institutions is not to enter depreciation as a current operating cost, but that such an allowance would be appropriate in cases where full reimbursement of costs incurred is stipulated, provision is made for a "use charge" of educational facilities to the extent used in such contracts. In this case, there is a direct relation between revenue and expense, and charges are fixed on the basis of costs incurred. Hence there is no inconsistency in following such a procedure even though it is not generally employed in accounting for educational operations.

Problems of depreciation policy and accounting are by no means confined to nonprofit institutions; in fact, they are probably more severe currently in business organizations than in the former. There is hardly an issue of any accounting journal that does not include some discussion of some phase of this problem. There is much difference of opinion as to how it should be handled, far greater in fact than exists in the ranks of those responsible for

management of colleges and universities. Also in these dicussions there is constantly more frequent emphasis on the relation between depreciation and replacement, in contrast to the position usually taken in the past. When this is recognized, the gap between commercial methods of treating depreciation and those followed by educational institutions is considerably narrowed.

To summarize, inclusion of depreciation on educational plant as an expense, except to the end of providing funds for future additions or replacements, accomplishes no useful end. On the contrary, it distorts and confuses the financial reporting, and shows erroneous results of actual current financial operations. To be effective and useful, depreciation, if charged, should be funded; that is, cash assets should be set aside for future use for plant replacements or additions.

Those who advocate the booking of depreciation in nonprofit enterprises in accordance with ordinary methods of commercial accounting overlook the accounting requirements in-Plant assets are set up in a volved. separate fund group from expendable funds through which current operations are carried. An entry may not be made in one without a contra entry in the other. Hence an entry of depreciation expense in current funds cannot be offset by a credit to a reserve for depreciation account with the intention of deducting the latter from plant asset accounts, as is done commercial accounting. There must be a complete double entry in each fund. If this is done in the current fund and constitutes the setting aside of a reserve for future use for additions and replacements, no objection can be raised.

<sup>17</sup> Department of Defense, Directive 7040.1, May 29, 1959.

<sup>18</sup> Bureau of the Budget, Circular A-21, September 1958.

rare that the resources of an institution or its conditions of operation will permit such a procedure. To enter the item as a current expense and then close the offsetting account to current surplus has the effect of negating the entry, and hence accomplishes nothing. To make an entry in plant accounts increasing reserve for depreciation and reducing plant investment account also is of no value, as elsewhere indicated.

# THE IMPORTANCE OF USEFULNESS AND CONSISTENCY

Two of the most important elements in accounting and reporting practices are *usefulness* and *consistency*. The importance of usefulness has been well asserted in the article by Mr. Samuel J. Broad, in which he says:

Whether it is better to adhere to a strict accounting determination of costs and financial position (this implies that booking of depreciation does improve the showing of "financial position" which I would question) or to show whether the institution is financially able to perform its intended function (which usually does not include either replacement of facilities or the making of a profit) is really a question of relative usefulness to be decided in the light of all the circumstances. <sup>19</sup>

With respect to both depreciation and accrual accounting in college and university accounting, over which some professional accountants and accounting teachers are so much concerned, usefulness to management of the methods advocated by national committees has been clearly demonstrated, as has the lack of usefulness of the usual commercial procedures.

Consistency (from one fiscal period to another) is a cardinal element in the examination and report of the independent auditor, and an integral part of every audit certificate. When an institution consistently maintains procedures that are in accord with principles recommended by competent authorities and the needs of its management, it meets this standard adequately.

fe

cl

in

in

pl

SU

fe

pl

pi

DI

in

dı

th

di

se

A

CO

m

ur

ni

do

me

19

of

ce

de

tifi

tic

Co

It follows, therefore, that if such procedures are useful to management and are consistently followed by a given institution year after year, the chief ends of good and adequate reporting are satisfactorily met. On these premises the common procedures for both depreciation on educational properties and the treatment of accruals solidly stand.

Most accountants making independent audits of educational institutions accept the conclusions of the National Committee with respect to depreciation. Confirmation of these judgments expressed appears in a significant statement by Ernest W. Baldassare:<sup>20</sup>

Where there is little or no relationship between expenditures incurred and the production of income and where costs are not an important factor in determining rates to be charged, little purpose is served in providing for depreciation, unless it is considered necessary for the purpose of replacement, as stated in the next paragraph.

As to depreciation accounting for the purpose of providing replacement of existing assets, it appears that if it is expected that funds for replacement are to be provided by the institution, depreciation (based on cost of existing assets) may be charged as an operating expense even if the test outlined in the preceding paragraph indicates that depreciation need not be provided. Further, to the extent that the purpose of recording depreciation is to provide for replacement of existing assets, the provision should be funded.

# WHAT CONSTITUTES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

There are those who argue that there is no difference in the needs of

<sup>19</sup> Samuel J. Broad, op. cit., p. 37.

<sup>&</sup>lt;sup>20</sup> Ernest W. Baldassare, "Capital Expenditures and Depreciation for Nonprofit Institutions," The New York Certified Public Accountant, March 1959, p. 212.

accounting and reporting in colleges and universities and other nonprofit activities, and of business operated for profit. That this is not a defensible position should be evident from the differences brought out in this article. The earliest studies in this field emphasize this fact and it has been confirmed by the two successive representative national committees made up chiefly of persons directly concerned in the financial management of such institutions.

en

ns

th

nt

n-

e-

ch

nt

a

he

e-

)n

al

C-

d-

ns

al

a-

its

e-

ip

n-

to

to

0-0

n-

ce-

he st-

ed

·O-

ed

ed

est di-

h

of

OF

on

at

of

tu-

Some accountants and others have held that the only accounting principles which should be recognized as such are those developed by the profession in relation to profit-seeking enterprises. They have insisted that the phrase "generally accepted accounting principles" should not be used except when the accounts do conform to those procedures. This position is untenable in both theory and practice. In 1953 the Committee on Accounting Procedure of the American Institute affirmed that its studies and pronouncements did not extend to other than profitseeking concerns.21 Nevertheless, the American Institute, even though it has continually cooperated in the development of the principles of college and university accounting, has never recognized the results officially or given endorsement to the program of recommendations of either the 1935 or the 1952 committee. Statement No. 28 of its Committee on Auditing Procedure falls substantially short of the deserved recognition in this respect.

There is no valid reason why certificates of audit of colleges and universities, when the accounts and reports conform generally to the practices recommended by the National Committee, should not state that they are in accordance with "generally accepted accounting principles." These are the principles applicable to and most commonly followed in the field of operation, and this fact is entitled to recognition. Many accountants follow this conclusion. Thus, John W. Oueenan says:

Accounting principles for colleges and universities were formulated by experience and reason and have been made a part of the literature by the American Council on Education; [they] are sufficiently crystalized, in my opinion, to warrant dropping any reference in the accountant's short-form report to their applicability to such institutions.<sup>22</sup>

Thomas L. Holton confirms this judgment in almost identical words. and adds that "the standard shortform report is fully appropriate and is in conformity with the intent of paragraph 11 of Statement of Auditing Procedure No. 28."23 He does recommend that the practice with respect to depreciation be noted in the financial statements. There can be no strong objection to such procedure, provided the method of omitting depreciation is recognized in the audit report as being accepted procedure. On the other hand, auditors would be justified in declining to certify that the accounts and statements are in accordance with "generally accepted accounting principles" when they do not conform in important respects to National Committee recommendations.

Some auditors feel that their "independence" is impaired if they are to be bound by limitations set by others. I have every respect for the independence of the accountant as an independent auditor. To me this means, however, freedom from any connection or influence which would stand in the way of disclosing incorrect, misleading, or dishonest presentations by

<sup>&</sup>lt;sup>21</sup> AICPA, Accounting Research Bulletin No. 43, 1953, p. 8.

<sup>&</sup>lt;sup>22</sup> John W. Queenan, "Presentation of Special Reports," The Journal of Accountancy, February 1957, p. 36.

<sup>&</sup>lt;sup>23</sup> Thomas L. Holton, "Reports on Nonprofit Organizations," The Journal of Accountancy, April 1959, p. 64.

the management. It does not extend into an exemption from the standards and principles which are the most generally accepted practice in the field involved, and have been developed by competent and authoritative consideration within the industry with professional guidance. Such independence leads to chaotic reporting which existed on a wide scale in the college and university field (as well as municipal) prior to 1930.

It must be recognized that institutional work is a small part of the practice of most accountants: that they are influenced by strong traditions of commercial procedure; that often they do not have in their organizations persons acquainted with the background of developments in this field, and unfortunately do not take the time to acquaint themselves with it. It is also true that in spite of the wide acceptance and application of uniform procedures, considerable variation among institutions still exists, as well as considerable inadequacy in accounting and reporting in all too many instances. Accountants can best help institutions by guiding them into recognition and implementation of established standards, rather than attempting to force them into nonapplicable commercial practices.

#### SUMMARY

To be adequate for management guidance and information as well as for public accountability, college and university accounting and financial reporting require certain features which differ from those commonly followed in business. Among these are:

- 1. Classification of accounts and financial statements of all kinds by funds.
- 2. Separation of both income and expenditures between: (a) educational purposes and functions, and (b) other activities, particularly those of a business character wholly or partially self-supporting.

LC

т

im

by

St

ca

CO

re

ib

(5

LC

tic

as

efl

m

pe

ce

or

re

lu

ar

th

fo (5

SA

tar an leg

- 3. Separation of income restricted to specific uses from that unrestricted as to use.
- 4. Modified accrual basis in accounting for income and expenditures.
- 5. Selective depreciation procedure, depending on the nature of property involved.
- 6. Gains or losses on investments to be carried to principal instead of being treated as income.
- 7. Continuous budgetary control, formal or informal.<sup>24</sup>

Even though not followed by all institutions or accountants, there being ing in each case a moderate number of exceptions, these standards have been accepted and applied by the overwhelming majority of colleges and universities, educational agencies, authors, and independent auditors. They may with confidence be said to be "generally accepted accounting principles" and should be so recognized and followed.

<sup>&</sup>lt;sup>24</sup> An excellent concise review of the needs and problems of educational financial reporting is found in J. Harvey Cain's, "Your Financial Report Should Inspire Confidence," College and University Business, Chicago, July 1957, pp. 35-37; and "A Fresh Look at Depreciation Charges," same publication, September 1959, p. 27.

### **Revenue Rulings of 1959**

By SAMUEL A. DYCKMAN, CPA

### LOCAL TAXES

d

ıd

al

d

d

THE Georgia sales and use tax is imposed upon the dealer rather than upon the consumer, and is deductible by the dealer. (59-65). Similarly, the State of Washington cigarette taxes cannot be deducted by the ultimate consumers since such taxes are not retail sales taxes and are only deductible by the wholesaler or retailer. (59-324).

### LONG-TERM COMPENSATION

Section 1301 provides for a limitation of tax if an employment (defined as one requiring personal services to effect a particular result) covers 36 months or more, and the gross compensation from the employment received in the taxable year is 80 percent or more of the total compensation. Services rendered by an officer of a real estate firm in the management of a building, for which he was paid a lump sum at the expiration of 20 years, are held not to be separable from the other services rendered the firm for which he received compensation. (59-176). Similarly, a lump-sum pay-

ment received by an attorney from the trustees of an estate as a fee for preparing the final formal account of the estate may not be treated separately from other amounts received as attorney for the trustees during administration of the estate. (59-161). A fee received by an individual upon completion of services performed under a prime contract which replaced a subcontract for the performance of the same services on a particular project, qualifies as long-term compensation for a single uninterrupted employment carried on under both contracts. If the total employment under the two contracts covers a period of at least 36 months, and the compensation received is not less than 80 percent of the total compensation, the income may be spread over a 36-month period. (59-211). Where a Federal civil service employee receives a retroactive pay adjustment in accordance with a private law to reimburse him for salary loss resulting from administrative error, the sum qualifies as "back pay." (59-48).

### MEDICAL EXPENSES

Where the husband and wife in a non-community property state file separate returns, amounts paid from a joint checking account for the medical care of the husband, wife, and children are presumed to be paid equally by

SAMUEL A. DYCKMAN, CPA, is associated with Robert Simons & Co., certified public accountants. Mr. Dyckman, member of our Society's Committee on New York State Taxation, is also a lecturer on taxation at the Baruch School of Business and Public Administration, The City College of New York, and an editor of the Journal of Taxation.

Ed. Note: Part one of this article appeared in the January 1960 issue.

the husband and wife for purposes of computing the medical deduction each is entitled to take, (59-66).

#### PATENTS

An inventor or other qualified holder may receive capital gains treatment on the transfer of a fraction of a whole patent provided he also transfers a share, equal to that fraction, in each of the substantial rights under the patent (59-175). A transfer by a holder of a patent of all the substantial rights in the patent to a corporation in which he holds more than 80 percent of the stock, results in ordinary income to the holder where the patent is depreciable property in the hands of the corporation. (59-210).

### PERSONAL HOLDING COMPANIES

For purposes of the stock ownership test for determining personal holding company status, an individual is not considered as constructively owning the stock held by his aunt or uncle. (59-43). Insurance commissions received by an authorized corporate agent of various insurance companies from the writing of insurance policies by the agent's two officer-stockholders do not qualify as personal holding company income where on the facts the individual stockholders were not named or designated in the agency contracts to perform the services, and the insurance companies did not reserve the right to do so. (59-172). A small business investment company operating under the provisions of the Small Business Investment Act of 1958, is subject to personal holding company tax if at least 80 percent of its gross income is personal holding company income and if at any time during the last half of the taxable year more than 50 percent in value of the stock is owned, directly or indirectly, by or for not more than five individuals. (59-69).

### PROCEDURE

An employer under the Railroad Retirement Tax Act filed a timely claim for refund of employer and employee tax erroneously paid. However. he omitted a required statement with respect to employee consent or to refund of the employee tax. Even though a new refund claim of the employees' tax is barred by the statute of limitations, the Service holds the claim for the employee's tax may be corrected by submission of the required supporting statement at a later date. (59-212). The Blue Cross-Blue Shield medical service operating as the fiscal administrator for a state medical society, and charged with disbursing Government funds to the physicians participating in a federal medical program, is required to file forms 1099 for each physician to whom it makes payments of \$600 or more. (59-328). A farm partnership is not excused from completing Schedule L (balance sheets) prescribed on form 1065 since there is no authority in the law or regulations to exclude any occupational group from this requirement. (59-169).

f

### REAL PROPERTY SUBDIVIDED FOR SALE

Where a taxpayer is assessed for paving expenses on a parcel of land which he donated to a city government, and the paving increases the basis of adjacent land which he retains, he will be deemed to have made improvements to the retained land. However the improvements will be considered as "necessary improvements" and not as "substantial improvements" for purposes of Section 1237, so that on subdivision and sale the taxpayer may be entitled to capital gain (59-31). Where Section 1237 is inapplicable, gain realized by a corporation from the sale of lots which it

subdivided from land originally held for investment, and upon which it made sizeable improvements to facilitate the sales, constitutes ordinary income. (59-91).

### REORGANIZATIONS

oad

nely

em-

ver,

re-

ugh

ees'

ita-

for

ted

up-

ate.

eld

cal

SO-

ing

ans

ro-

199

kes

8).

sed

nce

ace

or

pa-

nt.

for

nd

nt,

of

vill

nts

he

as

as

11-

ıb-

be

ts.

in-

0-

it

An exchange of mortgage bonds for stock in a corporation which had been in serious financial difficulties constitutes a tax-free recapitalization since the bonds qualify as "securities." (59-98). The acquisition by a corporation in exchange solely for its voting stock of the newly issued stock of an insolvent corporation, pursuant to a plan of reorganization under Chapter X of the Bankruptcy Act, qualifies as a tax-free reorganization where the general creditors receiving stock of the acquiring corporation are in reality owners of the equity in the insolvent corporation. Furthermore, the satisfaction of the creditors' claim does not require any reduction in the bases of the corporate property since the substitution of stock for the unsecured claims does not effect a reduction or discharge of indebtedness, but amounts to a transformation of the debt to a stock liability. (59-222), A "split off" transaction will qualify as a divisive reorganization even though a key employee (who winds up with a minority interest in the new corporation) participates through stock purchased in the transferor corporation in anticipation of the transaction. (59-197).

#### RESTRICTED STOCK OPTIONS

An employee stock option provides that the purchase price of a share of stock will be 95 percent of the fair market value at the time the option is granted, but goes on to state that fair market value is to be finally determined by the Treasury Department. Because of the imposition on the Department of the function of determining fair market value, the option price

is held not determinable at the time the option is granted, and the option cannot qualify as a restricted stock option. (59-243).

The options need not be uniform for all employees to qualify. Each option may be entirely separate and distinct in its terms from any other option granted to the other corporate employees, (59-198). But an option to purchase stock of the employer corporation coupled with some other property interest cannot qualify because the option is not limited solely to the employer's stock. (59-297). The purchase of a put (option to sell stock) on the same date that a restricted stock option is exercised does not in and of itself constitute a "disposition" (to deny the benefits of the restricted stock option provisions). However, a "disposition" is deemed to occur when the put is exercised. (59-242).

An employee's restricted stock option is not considered terminated where the employee is directed by his employment contract to serve as officer of an affiliated corporation. Furthermore the action of the company in deciding that the employment was not terminated (and that consequently the stock options did not terminate), does not constitute a "modification" of the option pursuant to Section 421(e) which considers a modification as the granting of a new option. (59-68). Similarly, where an optionee of a restricted stock option does not accept an invitation of the corporation to surrender his option in the hope of receiving a new option at a more favorable price, but retains his old option with no change in its terms, there is no "modification" of the old option. (59-55). The effect that active military service of an optionee has upon the requirement of the employer-employee relationship is outlined by the Service in a comprehensive ruling. (59-140).

A corporation pursuant to a recapitalization issued new common and preferred for all of its old common. All shares had the same fair market value at the time of the exchange. Some shareholders received either new common or preferred while others received shares of both issues. The Service rules that preferred stock received by a shareholder is not "Section 306 stock" where he owns no common after the exchange. As to those stockholders who received preferred and also continued ownership of the same or a greater percentage interest in the common stock equity, the preferred is in effect a dividend on common and constitutes "Section 306 stock." (59-84). Similarly, preferred stock of a new corporation resulting from a "split-off" issued in exchange for the stock of the old corporation is held to be "Section 306 stock." (59-197).

### SICK PAY

The Service has clarified its earlier position that absence from work on account of pregnancy does not qualify as a "sickness" for purposes of the sick-pay exclusion. It now rules that "sickness" will exist from the commencement of labor to the termination of the period during which taxpayer is physically incapacitated as a result of childbirth or miscarriage, regardless of the place of delivery. Also, a written statement by a physician that the taxpayer should remain at home because of substantial danger of miscarriage will generally be sufficient to establish "sickness." (59-170). Sick pay of a deceased employee is not includible in the gross income of the recipient-beneficiary. (59-64). A cash-basis taxpayer excludes sick pay in the year such wages are received even though the absence due to sickness occurred in the preceding year. (59-323). Payments under an employees' annuity

plan which makes no provision for payments during any disability period prior to retirement, cannot qualify as sick pay since the plan is not an accident or health plan. (59-158). But payments to a legislative employee of the New York State Legislature during periods of absence from work on account of personal injury or sickness qualify even though there are no formal rules regarding such payments. (59-265). Sick pay received by a husband in a community property state retains its character for both spouses and may be excluded by each. However, should the husband receive salary during a period that his wife is sick, no part of the salary can qualify. (59-159). A member of the armed forces retired because of disability may treat the disability retirement pay as excludable sick pay if received before he reaches "retirement age." The Service has provided a table defining "retirement age" for such members. (59-26).

th

du

pe

cle

tu

an

ST

he

int

pe

a (

OW

ca

me

a 1

an

wh

tio

Sh

po

Wi

an

ac

eve

ten

ter

sto

COI

rig

pay

OW

its

cha

por

cor

red

equ

por

fan

tial

a j

pul

### SMALL BUSINESS CORPORATIONS

Where there are more than ten shareholders, a corporation cannot qualify as a small business corporation under Section 1371 even though the shares are held by related individuals. For this purpose each individual is considered as a shareholder and the rules relating to the constructive ownership of stock for personal holding company purposes do not apply. (59-187). A partnership cannot qualify as a shareholder. (59-235). The amounts required to be included in the gross income of each shareholder under a corporate election pursuant to Subchapter S, should not be included in computing the shareholder's net earnings from self-employment for social security tax purposes. (59-221).

SOIL AND WATER
CONSERVATION EXPENSES

A nursery operator is considered in

the business of farming and may deduct soil and water conservation expenses. (59-12). Expenditures for clearing encroaching brush on land held for grazing cattle are not expenditures for soil or water conservation but are nevertheless deductible in full as ordinary and necessary business expenses. (59-42).

### STOCK REDEMPTIONS

OT

od

as

ci-

ut

of

ng

IC-

ess

no

ts.

a

ite

W-

ry

k,

fy.

ed

ay

as

re

er-

ng

rs.

re-

ify

ler

es

or

d-

es

ip

ny

A

re-

re-

n-

1-10

er

ng

m

ax

in

In determining whether there has been a termination of shareholder's interest in a redemption of stock to permit the redemption to be treated as a capital transaction, the attribution of ownership rules are waived in certain cases where stock is owned by family members. The ownership of stock by a trust cannot come within the waiver, and the attribution rules in such case will be applicable in determining whether there is an effective termination of stock ownership. (59-233). Should a redeeming stockholder appoint a nominee to the board of directors his interest in the corporation will not be considered as terminated and the redemption will be treated as a dividend. The stockholder may, however, designate a representative to attend the board meetings solely to determine whether the provisions of the stock redemption agreement have been complied with without jeopardizing his right to treat the redemption as in full payment for his stock. (59-119).

Where a closely held corporation owned by three families redeemed all its preferred by distributing in exchange therefor stock of another corporation which had been originally contributed by the three families, the redemption is held to be essentially equivalent to a dividend since the proportionate interests of each of the three families were not changed substantially. (59-258). The modification of a plan of complete liquidation by a publicly held corporation to one of

partial liquidation will not cause the initial distributions to be taxed as dividends. (59-240). Each of two brothers owned 50 percent of the stock of a corporation subject to an agreement which provided that upon the death of one, the survivor would either purchase all of the stock of the deceased at its fair market value, or vote his stock for liquidation of the corporation. One brother died and the corporation redeemed all of the deceased's stock for valid business reasons thereby relieving the survivor of his personal obligation under the agreement. The redemption by the corporation of all of its stock held by the estate does not constitute a constructive dividend to the surviving stockholder. (59-286).

### TAX-FREE EXCHANGES

A mutual exchange of farm properties constitutes a nontaxable exchange of "like property." Should the mortgages reciprocally assumed not cancel each other, any gain resulting from such assumption is treated as a gain on sale of a Section 1231 asset. The exchange of the personal residences on the properties is to be treated as a separate transaction subject to the special provisions pertaining to the sale or exchange of a residence. (59-229). A taxpayer will be entitled to the nonrecognition relief upon sale of his principal residence notwithstanding the fact that he temporarily rented out the residence prior to its sale. (59-72).

## TRANSFERS TO CONTROLLED CORPORATIONS

For purposes of a tax-free transfer to a corporation controlled immediately thereafter by the transferors, control requires ownership of at least 80 percent of the total number of shares of each class of nonvoting stock in addition to at least 80 percent ownership of the total combined voting power of all classes of voting stock. (59-259).

A court-appointed trustee who under local law takes charge of the proceeds received from the sale of estate property on petition of the life tenant, must report the gain from the sale on a fiduciary return irrespective of whether a trust exists at the time of sale, since he is holding income for future distribution under the terms of a will. (59-99). Where legal title to property held under a power in trust is in minor children as beneficiaries, but complete control of the property and its income remains in the trustee until the children attain their majority, the income is taxed to the trust rather than to the children (except to the extent the income is applied to the children's maintenance and support). (59-154). An agreement entered into by a cemetery corporation with a local bank, whereby the bank as trustee agrees to accept certain funds for perpetual care and maintenance of all the burial lots and the cemetery, constitutes a trust indenture creating a single trust. (59-30).

In computing taxable income, no deduction is allowed in respect of losses from sales, directly or indirectly, between a fiduciary of a trust and a fiduciary of another trust, if the same person is a grantor of both trusts. However, a deduction for a loss as a result of a sale of personally owned securities between individuals who are fiduciaries of trusts established by the same grantor, is not prohibited. (59-171). The beneficiary of a trust may not avail himself of the dividend received credit and dividend exclusion where the trust in its last taxable year has deductions in excess of gross income. (59-100).

Where all the income of a trust is required to be distributed currently to an accrual-basis beneficiary, income earned by the trust to the date of the beneficiary's death is includible in the final return of the decedent. The Ser-

vice holds there is no conflict between this rule and the rule under Section 451(b) that an amount accrued only by reason of death is not to be included in the deceased's income. (59-346). The transfer by a husband, pursuant to a separation agreement, of appreciated property to a trust to make alimony payments to his wife results in a tax to the husband on the amount of the appreciation only where his personal obligation to make the alimony payments is discharged by such transfer. Where the trust is created solely to act as a conduit for the payments. and of itself does not discharge the husband's obligation, the appreciation in the value of the stock is not income to him. (59-47).

(5

WA

the

tra

sta

the

visi

WE

TRA

me

Eu

sph

tion

elec

Am

rec

are

cha

not

tion

We

cee

gro

in :

the

as

cha

WH

to e

rent

him

a "1

ister

cost

a he

duci

pens

as a

cost

such

pay

P

the

0

#### VALUATION

A corporation purchased a life insurance policy on the life of one of its employees, designated itself as the beneficiary, and paid the premiums thereon for several years. Subsequently the corporation sold the policy, on which further premiums were to be paid, to the insured employee for the cash surrender value. For purposes of computing gain to the employee on the transfer, the Service holds the policy is to be valued at its interpolated terminal reserve value at the date of the sale, plus the proportionate part of any premium paid by the corporation prior to the date of sale applicable to a period subsequent thereto. (59-195). Where jointly owned property included in the decedent's gross estate is transferred to a revocable trust by the surviving joint tenant, such transfer is not considered as a "disposition" for purposes of the alternative estate tax valuation. Accordingly, if such alternative valuation is elected for estate tax purposes, and joint property is still in the revocable trust one year after death, the property will be valued one vear after decedent's death and not on the date of the creation of the trust. (59-213).

### WASH SALES

veen

tion

only

ided

46).

uant

pre-

ali-

s in

at of

per-

ony

ans-

olely

ents.

the

tion

ome

in-

f its

the

ums

ntly

on

be

the

s of

the

olicy

rmi-

the

any

rior

0 2

95).

in-

tate

by

sfer

for

tax

rna-

tax

l in

fter

not

Bonds issued by different local housing authorities under agreement with the Federal Public Housing Administration are not considered as "substantially identical" securities within the meaning of the "wash sales" provisions. (59-44).

## WESTERN HEMISPHERE TRADE CORPORATIONS

Purchases of hydro-electric equipment, supplies, and services from European markets by a Western Hemisphere trade corporation in connection with the construction of a hydroelectric development project in South America, constitute "unusual or nonrecurring" purchases. As such they are presumed to be "incidental purchases" regardless of amount, and will not disqualify the taxpayer. In addition, all other purchases outside the Western Hemisphere which do not exceed in total 5 percent of corporate gross receipts are considered minor in relation to the entire business of the taxpayer and will also be treated as non-disqualifying "incidental purchases," (59-356).

### WHAT IS INCOME?

Only an ordained minister is entitled to exclude a rental allowance or the rental value of a home furnished to him. The exclusion does not apply to a "minister of music" nor to a "minister of education." (59-270). The cost of utilities paid by a minister in a home provided rent free is not deductible. But if an amount of his compensation is designated by the church as a "rental allowance" to cover the cost of his utilities, he may exclude such portion of the allowance used to pay his utilities. (59-350).

Payments for disability incurred in the line of duty to retired police and

firemen of Honolulu are in the nature of and in lieu of workmen's compensation and are excludable from the recipient's income. (59-269). Costof-living allowances paid federal civilian employees stationed in Alaska and Hawaii continue to be exempt even after statehood. (59-279; 59-280). Employees need not pay a tax on holiday turkeys or other items of similar nominal value distributed by an employer at holiday time. (59-58). The value of lodging furnished an employee on the business premises of the employer for the latter's convenience is now considered excludable from income even when it is considered part of the compensation and is deducted from the employee's salary. (59-307). To have been excludable as a policeman's statutory subsistence allowance (under the now repealed Section 120) the amount need not have been paid apart from salary but was required to have been designated as a subsistence allowance by the governmental unit. A retroactive designation does not alter the legal status of the prior payments and will be ineffective. (59-276).

Considered taxable as income are benefits from a private unemployment fund (as distinguished from a union fund) to the extent the benefits exceed contributions (59-5); amounts paid by an employer on behalf of a newly hired employee (whether by way of allowance, reimbursement, or direct payment to a moving company) for moving expenses incurred by the employee (59-236); annuity payments received by the widow or children of a retired serviceman who had elected during his lifetime to receive a reduced amount of "retired pay" in order to provide for the annuity payments after his death. (59-254).

The Court of Claims held in the *Perry* case that the return to the grantor of the corpus of a charitable

trust constituted a nontaxable return of capital even though the grantor had realized full tax benefits from charitable deductions allowed for transfers to the trust in prior tax years. The Service maintains that the decision is contrary to judicial authority and will not be followed. (59-141).

### WHOSE INCOME?

Income of a newspaper publishing company organized and owned as a purported agency corporation by two other separate newspaper companies cannot be allocated entirely to the two purported principals but is considered to be partly attributable to and reportable by each of the three corporations in proportion to each corporation's contribution to the production of this income. (59-247). Where property is transferred to a minor pursuant to either the Uniform Gifts to Minors Act or the Model Gifts of Securities to Minors Act, the income therefrom which is used in whole or in part for the support of the minor-donee is taxable, to the extent so used, to the person who is legally obligated to support the donee. (59-357).

Di

194

ploy

defe

a to

abou

butio

\$830

\$4

serve

\$5.4

this

T

not

incre

depe

cult;

to th

matie

retire

ABR

ber o Plann

in the

Baruc minist York

### LEARNING FROM THE SENIOR

To his assistants, the senior accountant is a guide on the path of public accountancy. The good assistant will study his immediate supervisor closely and will glean from his examples and decisions the methods to be followed, to be discarded, to be improved upon. Anyone ever in the profession remembers his first senior accountants: how they worked, acted, talked, and so forth. As experience is gained, the assistant learns to observe and begins to acquire a portion of his senior's process of evaluation which is so important in public accounting work. In doing this, the assistant naturally leans on his senior; he looks for encouragement when correct and explanation when in error. Also, it is from the senior accountant that the assistant first learns that mastery of accounting theory alone does not make a good public accountant, but that without such knowledge his cause may well be hopeless.

Perhaps the most important responsibility that the senior accountant has to his assistants is that of giving adequate explanations about the purpose or need for a particular task asked of the assistant. By explaining the reasons for doing various types of verification or the need for certain information, he makes the performance of the sometimes menial-appearing tasks of a new assistant meaningful and increases interest and improves results, thereby speeding the development of his own eventual successors.

W. D. Harris, "The Role of the Senior Accountant," THE ILLINOIS CPA, Winter issue, 1959

## Estate Planning for Executive Fringe Benefits

By ABRAHAM J. BRILOFF, CPA

ered corttions ion's

this ty is

t to nors

for is

the

sup-

The area of pension plans, profit-sharing plans, stock options and other compensatory plans is expanding at an accelerated rate. The benefits under these plans very frequently represent a very substantial portion of the estates of the employees covered thereby. The author first discusses the basic income and estate tax concepts which here apply and then suggests certain possibilities which may serve to reduce the tax liability on these benefits and still accomplish the executive-employee's objectives regarding the disposition of his property.

During the thirteen-year period from 1945 to 1958 it is estimated that employee coverage under pension and deferred profit-sharing plans rose from a total of 6.4 million employees to about 19 million; employer contributions under these plans rose from \$830 million in the earlier year to \$4 billion in 1958; accumulated reserves in these plans mushroomed from \$5.4 billion to \$39.3 billion during this period.

The reasons for the expansion are not difficult to discern, and include: increased income tax rates making independent saving that much more difficult; the continuing shift from the farm to the city; and the tendency of automation to encourage earlier employee retirements. These pressures will un-

doubtedly be with us for the indefinite future. It is likely, then, that the fringe benefits referred to above (pension and deferred profit-sharing plans) will likewise expand further. These expanding fringe benefits have raised, and will continue to raise, major sociological and economic problems. The frame of reference for this article is a consideration of the implications of these benefits for the estate planning team. It should be emphasized at the outset that the fringe benefits here under discussion can, to varying degrees, be availed of by employees—executive and others at the level of small enterprise as well as in larger entities.

The term "executive fringe benefits" is here intended to refer to the complex of benefits comprising:

1. Qualified Plans — those pension or profit-sharing plans which are consistent with the standards set forth in Section 401 of the Internal Revenue Code, subdivided for purposes of this discussion into:

(a) Insured Plans - those plans

ABRAHAM J. BRILOFF, CPA, is a member of our Society's Committee on Estate Planning. Mr. Briloff, who is engaged in the practice of public accounting on his own account, is also a lecturer at the Baruch School of Business and Public Administration of The City College of New York.

where the funds being accumulated are invested in life insurance, annuity, or similar contracts issued by a commercial insuror; and

(b) Trusteed or Non-Insured Plans — those plans where the funds are being accumulated by a trustee and invested in real estate, equities, mortgages and otherwise.

2. Restricted Stock Option Plans — those plans which provide the fringe benefit for employees (almost exclusively executive employees) embraced

by Section 421 of the Code.

3. Non-Qualified Plans—those plans which would embrace all special benefit programs which do not fall into one of the categories described above. This would include benefits payable under a special employment contract or under some other plan not intended to include the broader range of employees contemplated by the qualified plans.

### REVIEW OF THE FIELD RULES

Before turning to the specific area of estate planning, it might be well to explore some of the income and estate tax field rules which pertain to the various plans referred to above.

QUALIFIED PLANS—
INCOME TAX IMPLICATIONS
OF LUMP-SUM PAYMENTS

If lump-sum payments subsequent to death are made from an insured plan coming within the ambit of a qualified plan, the income tax effect is dependent on the nature of the payment. Thus, to the extent the payment is considered to be "current insurance protection" (by which is meant the excess of the benefits payable on death over the cash value of the contract immediately preceding death) the benefits are exempt from income tax; this because the benefits are deemed to be "life insurance." It

follows that only the cash value immediately preceding death is involved in the income tax computations. Even this sum may be free from taxation to the extent that the employee made direct contributions to the plan, or to the extent that the employee was taxed from year to year under Regulations Section 1.402 (a)-1(a)(3), whereby the employee is taxed on the cost of the "insurance protection" provided under the contract. Further, the \$5,000 benefit provided by Section 101(b) of the Code might also become available in a particular case. The amount eventually determined to be taxable income hereunder would, in all probability, be taxed as a longterm capital gain under Section 402 (a)(2). To illustrate: Assume that the plan, funded by insurance contracts, provides for payment to the beneficiary (the spouse of the participant) in the amount of \$25,000. Assume, also, that the contract had a value immediately preceding death in the amount of \$11,000, that the participant was taxed, during his lifetime, on \$940 as the cost of current insurance protection, and that the \$5,000 exclusion referred to above is available. A tax is payable on a longterm capital gain of \$50,060, ascertained as follows:

ma

the

pai

tio

ext

sio

der

to

tal

PA'

mu

the

fits

nui

nui

clu

anı

die

the

req

to

Th

ves

sur

fro

and

Sec

sion

the

wh

exe

em

der

und

to o

fits

bas

the

the

hav

COL

1

Face amountValue immediately before deat	\$25,000 th 11,000
Current insurance protection (hence exempt from incortax)	644000
Cash value before death	\$11,000
Non-taxable portions: Exclusion under 101(b)	00
Premiums previously taxed to participant 9	40 5,940
Net Taxable Balance — taxable as a long-term gain	\$ 5,060

If these lump-sum payments are made pursuant to a non-insured plan, then to the extent that the benefits paid exceed the employee's contributions (if there were any) and to the extent they exceed the \$5,000 exclusion which may become available under Section 101(b), they are taxed to the beneficiary as a long-term capital gain.

im-

olved

Even

ation

made

or to

axed

tions

ereby

st of

vided

the

ction

be-

case.

ed to

d, in

ong-

402

that

con-

the

par-

000.

ad a

h in

par-

life-

rrent

the

ve is

ong-

scer-

5,000

1,000

4,000

1,000

5,940

,060

### PAYMENTS OTHER THAN LUMP-SUM

In this situation a further inquiry must be made to determine whether the employee began receiving benefits during his lifetime. If so, the annuity rules prevail and the second annuitant continues the income tax exclusion pattern determined for the first annuitant. If, however, the employee died before the annuity starting date, then the annuity exclusion factor is required to be determined pursuant to Section 72 (governing annuities). This factor would be based on an investment in the contract equal to the sum of:

1. Contributions by the employee.

Premiums taxed to the employee from year to year as current insurance protection.

3. Any exclusion available under Section 101(b), i.e., the \$5,000 exclusion.

4. Contributions of the employer if they were made under circumstances where they could be deemed to be exempt income (e.g., made while the employee was a bona fide foreign resident).

In many instances the beneficiary under an insured plan has the option to determine whether to take the benefits as a lump-sum or on some other basis. In that event, a comparison of the tax consequences resulting from the alternatives might be significant. We have already indicated the income tax consequences which flow from the tak-

ing of the benefits as a lump-sum. Let us suppose that within the sixty-day period provided by Section 72(b) the deceased participant's spouse elects to receive the benefits in ten annual instalments, each in the amount of \$3,000, in lieu of the \$25,000 face amount referred to in the example above. If we assume further that all other facts are consistent with those given above, then the \$3,000 annual receipt may be subdivided into two amounts in proportion to the \$14,000 and \$11,000 sums set forth above. The portion attributable to the \$14,000 (\$1,680) carries an exclusion factor based on the \$14,000 investment in the contract; while the portion attributable to the \$11,000 (\$1,320 per annum) takes on the exclusion factor based on the \$5,940 sum calculated in the foregoing illustration. The result would then be:

Annual portion stemming from \$14,000 sum Excludable portion (1/10 x		e	200
14,000)	1,400	2	280
Annual portion stemming from \$11,000 sum Excludable portion (1/10 x	\$1,320		
5,940)	594		726
Total		\$1	280
Balance taxable to spouse		\$	726

## ESTATE TAX IMPLICATIONS OF QUALIFIED PLANS

The determination of the estate tax consequences requires us to make inquiry into whether the subject plan is of the insured or the non-insured type. If it is in the former category, then the benefits are subject to estate tax to the extent the benefits are attributable to the "current insurance protection" discussed heretofore (e.g., \$14,000 in the example used above). The balance of the benefits (e.g., \$11,000 in the example) is exempt, provided that it is not attributable to the employee's contributions and, further, that the benefits are designated as payable to a beneficiary other than the estate or the fiduciary of the estate.

If the plan is of the non-insured variety, then the entire benefit payable on death may escape taxation to the extent that these benefits are not attributable to the employee's contributions and they are designated as payable to a beneficiary other than the estate or the fiduciary of the estate. The reason for the emphasis in this sentence and in that preceding will become clear in the subsequent discussion regarding the estate planning features.

## RESTRICTED STOCK OPTIONS—INCOME TAX IMPLICATIONS

The options here referred to are those which meet the provisions of Section 421 of the Code. It is beyond the scope of this article to discuss in detail the standards required for such options. Briefly, however, the option must flow from the corporation to the employee, must be for a price at least equal to 85 percent of the value of the stock, and must include certain limitations on the exercise and disposition of the stock.

If the option complies with the standards prescribed in the Code, then the exercise thereof does not produce any tax consequences (as distinguished from the immediate tax effects flowing from a non-restricted option arising from an employment relationship). Generally, the eventual profit on the disposition of the shares would give

rise to capital gain or loss measured by the difference between the proceeds and the cost or other basis.

A

0

fa

b

ai

fo

b

TE

fie

pi

fic

de

th

be

ar

es

Va

of

th

ev

tin

be

ca

ar

th

no

gr

sic

m

th

CO

An exception to the general rule occurs where the option price is less than 95 percent of the fair market value but at least 85 percent of such value. (If it were less than 85 percent then the restricted stock option provision would be entirely inapplicable.) In such case, assuming that the option was exercised by the employee during his lifetime, there is included as ordinary income in the year when the stock is disposed of or upon death (if the shares were not previously disposed of) the lesser of:

- (a) The excess of the fair market value of the shares, at the time of such disposition or upon death, over the price paid under the option, or
- (b) The excess of the fair market value of the shares at the time the option was granted over the option price computed as if the option was then exercised.

If the option is not exercised until after the employee's death, then the "up to 15 percent" spread is includible in the fiduciary's or beneficiary's income tax return for the year when the stock is sold (with a deduction allowed under Section 691(c) for any estate tax which may have been paid with respect to this spread).

### RESTRICTED STOCK OPTIONS— ESTATE TAX IMPLICATIONS

Where the executive has exercised the option during his lifetime, there is no special estate tax problem—the stock being valued at its fair market value. Where the employee does not exercise the option during his lifetime, then the option, per se, is valued for the estate tax, and the estate (or beneficiary) derives a basis consistent with such valuation.

NON-QUALIFIED PLANS-INCOME AND ESTATE TAX IMPLICATIONS

sured

pro-

rule

less

arket

such

per-

ption

inap-

ming

7 the

re is

the

d of

e not

r of:

arket

e of

over

arket

e op-

price

then

until

the

clud-

ary's

vhen

n al-

any

paid

ised

re is

-the

rket

not

ime,

for

ene-

with

T

Inasmuch as non-qualified plans may have varying characteristics, it follows that no generalizations should properly be made with regard to the tax implications thereof. Thus, some plans would be allowed the exclusion provided by Section 101(b) of the Code with regard to the first \$5,000 of benefits. In some rare situations the facts might produce a result where the benefits paid by the erstwhile employer are presumed to be a "gift" and therefore, exempt from income tax. It may be well, however, to consider some representative plans and the applicable field rules.

If the plan is one which, by contract, provides for the payment of a certain sum to the estate or designated beneficiary of the employee, then the recipient would be presumed to be in receipt of income with respect to a decedent and thereby subjected to tax thereon as compensation. Since these benefits may have been subjected to an estate tax, such tax may be used as a basis for the deduction provided by Section 691(c). It is probable that the value used for the purpose of the estate tax would be the commuted value of the contractual benefits as of the date of death.

If the contract calling for these payments contained a clause providing for the forfeiture of the benefits in the event that the employee during his lifetime performs an act inimical to the best interests of the employer (a socalled "bad boy" clause), the question arises as to whether the benefits which then vest only on death (presumably not before) should be included in the gross estate. This problem was considered by the Third Circuit in Goodman-Blum (243 F. (2nd) 264) and the determination (based on practical considerations) was to the effect that they are properly includible. The further question then arises as to whether the benefits, when received, are required to be included in the taxable income of the recipient. Generally, it is believed that these benefits are to be thus included on the ground that they are attributable to the decedent's services even though the decedent never earned these sums (since, as was noted, they were forfeitable right up to the moment of the employee's The question is, however, death). anything but finally resolved.

A very recent innovation in the area of non-qualified fringe benefits is the so-called "phantom (or shadow) stock" bonus plan, as exemplified by the duPont Bonus Plan C, approved in 1957. Pursuant to such a plan (which is usually restricted to employees in the executive echelons of the corporation), the executive is given a so-called "dividend unit," which may or may not be associated with a related stock option. A dividend unit is the right to receive for a specified period "dividend equivalents" (i.e., the amount equal to the annual dividends which are paid on the stock, with adjustment for stock splits, etc.). Thus, the employee does not own the shares, per se; he merely obtains the equivalent earning poten-If the award also includes an option to acquire the shares, then the option price is equal to (in the duPont situation) the fair market price of the stock on the date the option is granted. The plan would also provide that, upon the exercise of the option, the "dividend units" shall terminate, proportionately. Presumably, also, the option aspects will comply with the Code requirements indicated for restricted stock options.

It is clear, then, that the "phantom stock" plan is devised to give the employee an immediate economic benefit (e.g., yield and appreciation potential) consistent with the ownership of the shares, without the need for financing the stock acquisition (as is generally involved in a mere stock option); nor is he required to pay a tax currently on the value of the shares (as is the case in a stock bonus plan).

Insofar as the income tax consequences are concerned, it would appear that the estate or beneficiary collecting on the "dividend units" after the death of the executive would be required to pay an income tax thereon (with a deduction allowable for any estate taxes paid with respect thereto). In the event the estate exercised a previously unexercised stock option, it should appear that the cost of the stock coupled with any estate tax value fixed on the unexercised option should become the basis for the stock thus acquired.

The estate tax implications of such "phantom stock" plans are unclear. It would appear that where the alternate benefits (i.e., continued "dividend equivalents" or option) are available, both alternatives would be valued. The former would be predicated on the commuted value of the presumed income; the latter on the spread between the market value and the option price. Presumably, the greater of the two amounts would be includible in the gross estate.

### THE ESTATE PLANNING ASPECTS

The special frame of reference for this paper is the estate planning for these benefits. The preceding discussion, then, is but an extensive prologue to the subject. The remainder of this article is devoted to a consideration of some recommendations for inclusion in the estate planner's arsenal.

### QUALIFIED PLANS—INCOME TAX CONSIDERATIONS

As was discussed above, the benefits provided by qualified plans are subject to an income tax when received. These benefits, if paid in a lump-sum, are generally taxed as a long-term capital gain; otherwise they are taxed at ordinary income tax rates to the estate or beneficiary.

CC

ci

la

tic

ES

ab

cu

su

wl

th

of

ter

th

pa

tri

se

ex

to

av

qu

ex

the

mi

est

tru

de

giv

Th

wi

COI

ing

fol

dea

fro

by

the

pro

dei

est

Since the amount of tax eventually to be paid is thus dependent on the income tax bracket of the beneficiary, consideration should be given to designating the benefits payable under the plan to persons in lower income tax brackets. Furthermore, to offset these benefits, the corpus of the executive's estate which might otherwise flow to these "low-bracketed" beneficiaries. should be diverted to the other beneficiaries (presumably those in higher income brackets). For example, assume that the executive wishes to bequeath \$10,000 to a brother who has little or no taxable income and assume that the executive's spouse (in the year of death a joint return would probably be involved) would have taxable income reaching into the upper tax brackets. Obviously, withholding from the spouse \$10,000 of such benefits (giving her, instead, \$10,000 of additional corpus) and giving the \$10,000pension benefit to the brother, would produce a lesser tax on the assumed \$10,000. (It is true that a circumspect allocation would cause an amount somewhat beyond \$10,000 to be thus diverted to permit the brother to pay the tax on the diversion.)

Designating the benefits to be paid to several beneficiaries might, similarly, produce a lower income tax on these benefits. Another planning feature would provide for designating the benefits so that they are made payable to an inter-vivos trust created by the executive during his lifetime. This

could result in a shifting of the incidence of tax from one year to a later year through the judicious adoption of a tax year which would be at variance from that in effect for the beneficiary.

### ESTATE TAX CONSIDERATIONS

ne-

ub-

red.

ım.

ipi-

at

es-

ally

the

try,

sig-

the

tax

ese

re's

to

ies,

ne-

her

as-

be-

as

me

ear

bly

in-

ax

om

fits

di-

00-

ıld

ed

m-

an

to

ner

iid

ly,

ese

re

he

ıy-

by

The estate tax is generally avoidable on the benefits here under discussion. It is clear, however, that if such amounts are paid to someone who already has a substantial estate, the estate tax payable on the death of the beneficiary is thereby augmen-The executive cannot merge ted. these benefits into his estate and then pass these funds into a testamentary trust, thereby avoiding the tax on the second death referred to above. This is so because such a designation by the executive would subject these benefits to tax on the death of the executive.

A very expeditious procedure for avoiding both these estate tax consequences is available. Assume that the executive desires his spouse to have the full use of the funds but wishes to minimize estate taxes on her eventual estate. He could create an inter vivos trust with but a nominal principal. Under this trust indenture, the income is made payable to his spouse and she may also be given some rights to invade principal; she is not, however, given a general power of appointment. The executive then files a designation with the pension (or profit-sharing) committee of the organization directing that the benefits on death be paid to the aforementioned trust. It would follow, then, that on the executive's death the benefits would be exempt from estate tax to the extent provided by statute; the corpus remaining in the trust on the wife's death would probably escape tax in her estate under the usual rules governing interests entailed in trust.

If, after the creation of the aforementioned trust, the executive's dispository scheme changes, all he need do is execute a superseding trust agreement, file a new designation of beneficiary with the committee, and permit the initial trust to atrophy.

The recommendation that the vehicle be an inter-vivos trust as distinguished from a testamentary trust stems from the belief that a payment to a testamentary trustee could be deemed to be a payment to the executor, in which event the estate tax exclusion on the death of the executive could fail.

## RESTRICTED STOCK OPTIONS—INCOME TAX CONSIDERATIONS

In my discussion of the basic field rules, I indicated that the exercise of a restricted stock option does not give rise to taxable income. It was also indicated that where the option price is in the range of 85-95 percent of fair market value, a tax may be asserted on the spread in the year when the stock is sold or otherwise disposed of, or upon death if the stock had not theretofore been sold. It follows, then, that where such a twilight zone does prevail with respect to such shares, the estate planning team should determine whether a portion or all of the stock acquired under such an option should be sold during the decedent's lifetime, or whether an inter-vivos gift should be made of the stock (thereby, possibly, causing the spread to be taxed in an income tax bracket below that which might prevail in the year of death). As in the case of many facets of estate planning a single standard of action cannot be suggested; instead, the optimum determination must be reached empirically.

Turning to the usual restricted stockoption situation (i.e., one where the option price is at least 95 percent of the value of the stock), the important income tax consideration to bear in mind is that the exercise of the option, if followed by a sale of the shares by our executive, produces a tax on the appreciation, presumably as a long-term capital gain. This tax can be avoided by the retention of the shares, if the option is exercised, or by the non-exercise of the option during the executive's lifetime followed by a disposition of the option by the estate through the exercise of the option or the sale thereof.

#### ESTATE TAX CONSIDERATIONS

For the purposes of the estate tax, the shares acquired by the exercise of the option would be valued pursuant to the rules governing valuation generally; if the option is unexercised at the time of death, then the option is evaluated as of the date of death or as of some later date under the optional valuation rules. Under the general rules governing basis, the values thus fixed for the purposes of the estate tax become the basis for determining gain or loss on the eventual disposition of the related shares or option, respectively.

#### OTHER CONSIDERATIONS

As is so frequently the case in estate planning, there are usually factors which may transcend the income or estate tax considerations. So it is that while income tax considerations might direct holding the shares (if the option was exercised) until after the executive's death, the possibility of the decline in share values might dictate protective action during the decedent's lifetime. Also, the possibility that the shares may decline in value might encourage us to recommend the immediate exercise of the option, followed by a sweating out of the six-month waiting period preceding a sale of the

shares. However, in this connection, the source of funds for the exercise of the option must be determined; if borrowing is anticipated, the Federal Reserve restrictions on borrowing for stock purchases may here apply.

ret

sat

pro

Ru

po:

we

of

the

auc

ten

fici

sha

the

the

by

pro

opi

by

cis

NO

INC

the

ho

bei

iec

fici

tha

tio

mc

fits

the

rec

it

be

bei

inc

tha

bei

wh

lov

bec

fits

For those interested in the exotic Section 1233(c) of the Code suggests an interesting possibility. As is generally known, Section 1233(b) provides that where shares are held less than six months at the time an option to sell such shares (i.e., a so-called "put" option) is acquired, then the holding period for the purpose of determining whether the eventual gain is short or long term shall be deemed to have terminated on the date when the "put" option was acquired. The effect of this provision is to prevent the transmuting of short-term gains into long-term gains through the mere expedient of acquiring the "put" option and then maintaining the straddled position until after the critical six-month period has elapsed. Section 1233(c), however, renders the aforementioned provision inapplicable where both the shares and the "put" option are acquired on the same day, and where the shares in question are delivered against the "put" option more than six months after the acquisitions referred to above. Where the executive feels very bearish about the shares of his employer, he can protect his position by acquiring a "put" on the same day that he acquires the shares under the option; after the expiration of the six-month period the shares could be delivered against the "put," thereupon realizing the gain, and, since the shares were held for more than six months prior to the delivery thereof, long-term gain results. Also, the disposition of the shares having been effected more than six months after the transfer of the shares to the executive, the requirements of Section 421(a) regarding the

retention of the shares will have been satisfied assuming that the two-year provision has also been met (see Rev. Rul. 59-242). Before grabbing at this possibility the estate planner would be well advised to first ascertain the cost of acquiring the "put."

ion.

cise

; if

eral

for

otic,

ests

ner-

des

han

to

ut"

ling

ing

or

ter-

ut"

this

ing

ins

uir-

in-

ntil

has

er.

ion

and

the

in

the

ths

ve.

ish

he

ing

ac-

on;

nth

red

ing

ere

ior

ain

he

an

he

re-

he

If the executive determines to defer the exercise until after his death, the question arises as to whether he contemplates his estate's (or his beneficiary's) continued ownership of the shares. If so, then he must plan for the providing of the funds required for the exercise of the election. If a sale by the estate, etc., is anticipated, the problem is rendered moot, since the option, per se, can probably be sold by the estate without the prior exercise thereof.

### NON-QUALIFIED PLANS— INCOME TAX CONSIDERATIONS

As the discussion above indicated, these "non-qualified plans" may vary in many different respects. Generally, however, it may be assumed that the benefits payable on death will be subjected to tax to the ultimate beneficiary, excepting for the possibility that the \$5,000 exclusion under Section 101(b) might apply and for the more remote possibility that the benefits might be held to be a "gift" from the employer and hence tax-free to the recipient. In this latter connection, it is probably inappropriate to think in terms of an estate plan predicated on receiving a "gift"; hence it will not be considered herein.

Since we are then assuming that the benefits will generally be subjected to income tax to the recipient, it follows that the executive should divert these benefits to those of his beneficiaries who might be expected to be in a lower income tax bracket. Thus, a bequest of \$12,000 out of such benefits to one legatee might be the equiva-

lent of \$10,000 after tax; to another, it might be worth only \$6,000. So it is that a diversion of the \$12,000 to the former, giving the latter \$10,000 out of the executive's principal, would be a much more prudent determination than reversing the process.

Similarly, where we are in a position to guide the form of the fringe benefit, stretching out the pay-out process so as to embrace that many more taxable years would be judicious assuming, of course, that our executive does not have any doubts about his employer's ability to fulfill the undertaking for the number of years involved.

Implicit in all of the foregoing is the recommendation that the benefits be directed to be sprinkled among as many taxpayers (the use of trust entities to receive portions of these benefits should also be considered) as might be feasible. This, too, is intended to reduce the effective rate of income tax to the irreducible minimum.

In short, the projection of the income tax payable with reference to these benefits is an essential aspect of the estate planning process. Of course, any estate tax payable with respect to the value of these fringe benefits may give rise to a deduction for such estate taxes under Section 691(c) of the Code.

### ESTATE TAX CONSIDERATIONS

The discussion under the basic field rules governing non-qualified plans indicated that where the benefits were fixed by contract during the decedent's lifetime they will, in all probability, be considered to be a part of his gross estate. This will probably prevail even if there is a possibility of forfeiture during his lifetime (providing the benefits are vested upon death). Where there is a real contingency surviving the executive's death (e.g., where the

bonus award, say, is not made until after death, or where there are real conditions precedent to the pay-out which survive death), then the benefits might be freed from the estate tax.

Inter-vivos gifts of the benefits under these plans, to the extent these benefits have not yet been vested and delivered, are probably not feasible. This is implicit in the presumption that these benefits are capable of evaporating where the executive does something which is deemed to be inimical to the interests of the employer, which actions would result in a forfeiture of the non-vested, non-delivered benefits.

### CONCLUSION

It should now be abundantly clear that there are no universal panaceas and no nostrums in estate planning. All we can do is to become aware of the various possibilities which are or might become available and then select the one which is most consistent with the executive's objectives. It is now axiomatic that in making the choice, factors unrelated to income and estate taxes should also be taken into consideration. In brief, the executive's wishes should be fulfilled and at the lowest possible levels of income and estate taxation.

Gu

TAX

CLA

div

filed

with

Alb

who who ever end con

tral

Jose

that

hav

will

in 1

& F

The

ten Alb

equ

with

area

son

Nev

Yor

in w

dent

New

their

New

RIC

ber York

ber (

Mite

F

### INTERNAL AUDITING

There is no doubt that the existence of a well-organized, competent, efficient and independent internal audit department has a material effect on the approach of the external auditors to the duties laid upon them by the statutes under which they are appointed.

There is a large measure of common ground between internal and external audit, as both are concerned with the validity and integrity of the periodical accounts produced and both are concerned to reveal transactions that may not have reached the books of account. The result has generally been that the external auditors have reduced their work of detailed checking and in consequence there will have been a reduction in the fee which they charge for their services.

Co-operation between the external and internal auditors can only take place if management permits, and whilst the day-to-day work and examination of interim accounts is generally regarded as work properly falling within the scope of internal audit, the year-end verification of balance sheets is the prime responsibility of the external auditor. If internal audit is to aid external audit in the verification of the balance sheet, therefore, that work can generally only be undertaken with the specific permission of management.

To take cognizance of internal audit and thereby bring about a reduction in the fee, the external auditor will expect internal auditors to display and apply a professional approach to financial and accounting controls, will expect to be consulted on the internal programme of work and to have access to all internal audit reports and working papers.

H. C. BOOTH, "Widening the Internal Audit Horizon,"
THE ACCOUNTANT [England], January 1960

### **New York State Tax Forum**

Guest Editor-RICHARD H. KALISH, CPA

TAX ADMINISTRATION—
CLAIMS FOR REFUND

lear

ing. e of e or

elect with now

ice,

tate

on-

ve's

the

and

Prior to calendar year 1960 an individual New York State taxpayer filed his personal income tax return with the State Tax Commission at Albany, New York, regardless of where he lived within the state or whether he was a nonresident. However, beginning with the current calendar year the procedure for filing income tax returns has been decen-State Tax Commissioner tralized. Joseph H. Murphy recently announced that streamlined account procedures have been installed in the Department of Taxation and Finance and returns will be processed much more quickly in 1960 than in the past. (Dept. Tax. & Fin. Release No. 145, 11/23/59.) The State tax department has set up ten district offices in addition to the Albany office, which are completely equipped to handle the tax burden within their respective geographical areas. Thus, instead of filing personal income tax returns at Albany, New York, a resident taxpayer will file his tax return in the designated New York State district office for the county in which he resides. For example, residents of the counties of the Bronx, New York, and Richmond should file their returns at 80 Centre Street in New York City.

Since the so-called "pay as you go"

RICHARD H. KALISH, CPA, is a member of our Society's Committee on New York State Taxation. Mr. Kalish is a member of the staff of the firm of Peat, Marwick, Mitchell & Co.

method of paying income tax was put into effect in New York State during 1959, many taxpayers will find in computing their tax liability that an overpayment has been made. The taxpayer may elect to apply that overpayment as a credit against his 1960 New York State estimated tax, or he may elect to have the overpayment refunded to him. In a talk delivered on November 23, 1959 at the technical meeting sponsored by the New York State Taxation Committee of the State Society, Commissioner Joseph H. Murphy emphasized that refund claims would be processed much more quickly and efficiently if returns are filed with the State district office rather than being sent to Albany. He noted that if returns are sent to Albany by resident taxpayers, they must be distributed to the respective district offices for processing. This could result in considerable delay to the detriment of the taxpayer since refund claims of this nature do not accrue interest. Therefore, particularly where the return of a taxpayer indicates a refund due, it cannot be too strongly emphasized that such returns be filed with the proper district office for the county in which he lives. Nonresident individual taxpayers and resident taxpayers living in the counties covered by the Albany office will continue to file their personal tax returns in Albany, New York as in prior years.

LUMP-SUM PENSION
DISTRIBUTIONS—NONRESIDENTS

Let us assume a nonresident indi-

vidual is employed by a corporation in New York State. The employer has established a pension plan qualified under Section 401 of the 1954 Code. A trust qualified as exempt under Section 501(a) has been created to administer the plan. The nonresident individual retires from his employment during 1959 and is eligible to receive the benefits of the plan. By the terms of the plan he may elect to receive periodic payments or a lump-sum distribution within one year from the date of his retirement. He will naturally be concerned with the New York State income tax consequences to him of these two alternative methods of payment.

A fundamental rule in New York State is that a nonresident is subject to personal income tax on net income and net capital gains from all property owned and from every business, trade, profession or occupation carried on in this state. (Section 351 of the Tax Law.) Subdivision 3 of Section 359 of the Tax Law expressly excludes annuities from the taxable income of nonresidents. To the extent that they are periodic payments made to persons retired from employment, pensions are considered annuities and are therefore exempt from New York State income tax. Therefore if our nonresident individual, referred to above, receives periodic payments from the exempt pension trust after terminating his employment, he will be exempt from New York State income tax on such amounts so received. Under the federal income tax law (Section 402 (a)(1), 1954 IRC) periodic payments are treated as ordinary income subject to the graduated income tax rates. However, if he receives a single lump-sum payment of his interest in the pension trust within one year from the termination date of his employment, such amount is taxable at the capital gain rate of tax. (Code Section 402(a)(2).) Thus, depending on the ordinary income tax bracket in which he is subject to tax, it might be to his benefit from the federal tax point of view to elect to receive a single lump-sum payment from the pension trust. But in doing so will he subject himself to New York State income tax on the sum so received in a single payment?

the

the

me

caj

fur

COL

sio

pea

app

wit

pro

unl

issi

rec

pay

(Se

nev

cer

be

cor

tion

BUS

Co

as .

aga

lon

ded

any

a c

yea

ince

froi

of t

a r

cari

5 1

172

pur

10

ord

the

the

pro

law

or c

bad

Wor

A recent ruling of the State Tax Commission, issued on November 30 1959, states that lump-sum distributions from an exempt pension trust are taxable to nonresidents to the extent based on personal services rendered in New York State. The Commission concluded that lump-sum distributions from pension trusts are not in the nature of annuities but, rather, are in the nature of deferred compensation and, accordingly, are taxable to nonresidents to the extent based on personal services rendered in the State. Subdivision 5 of Section 365 of the Tax Law provides that if lump-sum distributions are made from a trust exempt from tax, and are paid on account of the employee's death or other separation from the service of the employer, the amount thereof which exceeds the amounts contributed by the employee is taxable as capital gain.

Thus, the nonresident individual would be subject to New York State income tax on the lump-sum distribution from his employer's pension trust to the extent based on personal services rendered in this State. However, the State Tax ruling failed to indicate the basis to be used in allocating services within and without New York State. Is this lump-sum payment to be allocated on the basis of days worked in New York during the year in which his employment is terminated? Or is an average to be made of the days worked within and without New York over a period of years? To date the State Tax Commission has not defined

the formula to be used in determining the portion of lump-sum pension payments subject to the New York State capital gains tax rates. Undoubtedly further pronouncements will be forthcoming from the State Tax Commission. In the meantime, it would appear that any method of allocation that appears reasonable could be employed with respect to taxpayers having this problem in the calendar year 1959, unless the Commission resolves this issue before April 15.

no z

t in

it be

tax

e a

the

ll he

e in-

in a

Tax

30.

ibu-

are

tent

ered

sion

ions

the e in

tion

nonper-

tate.

sum

trust

ac-

ther

em-

ex-

the

ain.

dual

tate

ibu-

rust

erv-

ver.

cate

erv-

ork

o be

ked

hich

r is

lays

ork

the

ined

Although no withholding of tax is required with respect to lump-sum payments from exempt pension trusts (Section 366, Subdivision 12(a)(ix)), nevertheless complete information concerning such payments is required to be reported to New York State in accordance with Subdivision 10 of Section 366 of the Tax Law.

### BUSINESS AND NONBUSINESS BAD DEBTS

Under Section 166(d) of the 1954 Code a nonbusiness bad debt is treated as a short-term capital loss deductible against capital gains, both short and long term, and any excess over \$1,000 deductible from ordinary income in any given year, is carried forward as a capital loss for the five succeeding years. A business bad debt for federal income tax purposes is deductible from ordinary income (Section 166(a) of the 1954 Code), and any excess is a net operating loss permitted to be carried back 3 years and forward for 5 years in accordance with Section 172. For New York State income tax purposes a bad debt, whether business or nonbusiness, is deductible against ordinary income in the year in which the debt is worthless (Section 360 of the State tax law). Since there is no provision in the New York State tax law for a net operating loss carryback or carryforward, any excess of business bad debts over income in the year of worthlessness is lost forever. By the

same token, since New York State treats a nonbusiness bad debt as a deduction from ordinary income and not as a capital loss there can be no carryforward of any excess in the year of loss to the next five succeeding years. Therefore, although the distinction between a business and non-business bad debt is important for federal income tax purposes, it is irrelevant for New York State personal income tax purposes. However, for purposes of the unincorporated business tax, the distinction does have significance.

In accordance with Section 386-e of the Tax Law a business bad debt is deductible in the year of worthlessness in arriving at net business income for purposes of the unincorporated business tax. (See Reg. Art. 12.) However, a loss sustained during the taxable year, if incurred in any transaction entered into for profit but not connected with the taxpayer's trade or business, is not deductible in computing net income subject to the unincorporated business tax, although deductible for personal income tax purposes. (Reg. Art. 15.) A nonbusiness bad debt would fall in this latter category and, although deductible as an "other deductions" for purposes of the personal income tax would not be deductible for purposes of the unincorporated business tax.

## HOTEL ROOMS OCCUPANCY TAX—MOTELS

Title V, Chapter 41 of the Administrative Code of New York City imposes a tax at the rate of 5 percent of the rental paid for every occupancy of a room or rooms in a hotel, apartment hotel or a lodging house. Chapter 41-1.0 of Title V defines a "Lodging house" as a building or portion of a building in which persons are lodged for hire with or without meals, (Continued on page 141)

### Accounting at the SEC

Conducted by Louis H. RAPPAPORT, CPA

### PRESERVATION AND DESTRUCTION OF BOOKS AND RECORDS

The SEC's authority to regulate differs considerably as between the various statutes which it administers. The Commission's authority is greatest where it administers all companies in an industry, such as investment companies or the public utility holding companies.

Under the Public Utility Holding Company Act, the SEC, some years ago, promulgated a uniform system of accounts to be followed by all companies in that industry. Public accountants ordinarily will not have occasion to refer to that system unless they have clients subject to its provisions.

The SEC recently amended that section of the Uniform System which relates to the preservation of records by holding companies. Accountants both public and private—are interested in the matter of preservation and orderly destruction of records. For that reason our readers may be interested in the action taken by the SEC in November, 1959, and announced in Accounting Series Release No. 84. In that release the SEC eliminated the previous prohibition against the destruction of books and records and substituted a revised regulation which includes an appendix containing a detailed schedule of records retention periods. The orderly destruction of voluminous records no longer considered necessary in the public interest is permitted under this revised regulation.

ment

filmin pend destr

pany have accou in the insur

Fe turns porti

cal r

taine

but

made

autho

Re

must

micro

origin

Pa

arate

vario

micro

at a

recor

has b

Th

tion

lation

Al

erate

Rete

hensi

requi

tenar

quire

Acco

missi

excu

lawfu

tion

those

Reco

usefu

histo

serve

the s

The general instructions define the scope of the regulation, provide for the designation of an official (which may be a bank or trust company performing corporate functions) to supervise preservation and destruction of such records. prescribe minimum measures for the protection, storage and indexing of records and detailed specific requirements for microfilm substitution. Under the regulation, books and records are divided into five categories: corporate and general, treasury, payroll and personnel records, purchases and stores, and miscellaneous. Retention periods for accounting records are prescribed under the caption "Corporate and General."

The regulation provides for the permanent retention of general ledgers, subsidiary ledgers and journals, cash books, voucher registers and vouchers supporting journal entries relating to organization, fixed assets, investments, issuance of capital stock, funded debt and certain designated cash disbursements vouchers. Microfilms may be substituted for the originals of these records after a period of twenty years. The originals of other cash disburse-

LOUIS H. RAPPAPORT, CPA, a partner in the firm of Lybrand, Ross Bros. & Montgomery, CPAs, is the author of SEC ACCOUNTING PRACTICE AND PROCEDURE.

ments vouchers must be retained for periods of five years but, after micro-filming, those involving annual expenditures of \$5,000 or less may be destroyed at the option of the company if the books of the company have been examined by independent accountants. The same option applies in the case of certain supplementary insurance and tax records.

Federal and state income tax returns, including schedules and supporting work papers, and state and local property tax records must be retained for periods of twenty years
but microfilm substitution may be
made after examination by taxing
authorities.

RDS

con-

cords

de-

s no

the

r this

e the

e for

vhich

per-

uper-

n of

mum

stor-

I de-

icro-

gula-

vided

and

per-

ores.

riods

ribed

and

per-

gers,

cash

chers

g to

ents,

debt

urse-

y be

hese

ears.

urse-

Reports of independent accountants must be retained permanently but microfilms may be substituted for the originals after a period of ten years. Payroll records are classified separately and must be retained for various periods up to seven years but microfilm substitution may be made at any time after the use of such records for current recording purposes has been discontinued.

The foregoing is a very brief indication of the scope of the revised regulation.

Although the type of records enumerated in the "Schedule of Records Retention Periods" is quite comprehensive, it is not to be construed as requiring the preparation and maintenance of records not otherwise required by the Uniform System of Accounts or regulations of the Commission. Also, the regulation does not excuse compliance with any other lawful requirement for the preservation of records for periods longer than those prescribed in the regulation. Records not listed in the schedule but useful in developing the facts and history of transactions must be preserved for the periods prescribed in the schedule for related records.



## Our Accounting Placement is professionally oriented!

We just wouldn't be happy unless our screening was completely responsible. Every candidate in our abundant files is efficiently and pleasantly interviewed on specific experience, employment goals, potential strengths, integrity and personality. Incidentally, very special attention is given to the:

## Executive Level

It is here that you will really experience our unique concept of evaluation.

Recommended by:

d-CON CORPORATION
GEIGY CHEMICAL CORP.
GENERAL MILLS, INC.
UNITED PARCEL SERVICE
UNITED STATES PLYWOOD
CORP.

(Due to the American Institute Of Accountants' Code, our Public Accounting endorsement remains silent.)

Very truly yours,

eve loa

Member

American Management Association

National Association of Accountants

50 CHURCH ST., NEW YORK WOrth 4-8410

## Administration of A CPA Practice

Conducted by MAX BLOCK, CPA

ACCOUNTANTS OFFICE MANAGERS'
SHOP TALK

At the December 1959 meeting of the Accountants Office Managers Group the following operational matters involving tax practice were discussed.

All-purpose instruction sheet for tax returns. One member reported complete satisfaction with the use of one form instead of individual forms. Others present used one instruction sheet for a group of returns, the number of groups numbering up to six or seven. No one reported using a specialized form for each type of return. Most offices represented used translucent forms for machine reproduction; one found that the manual form was more economical of time.

Use for instruction sheet duplicates. Some members reported that they prepared and retained copies of instruction sheets. One used the duplicate for a record of the preparation of the

return, that is, the names of those who prepared and reviewed the return, date mailed, and other service data. The bottom of the duplicate, a blank section not covered by the carbon paper, was utilized for this purpose. Others retained the duplicates as evidences of the mailing and the instructions furnished.

to n ual mai

Non

gene clier of r

the was

and

rece

occa

calle

T

that

follo

duly

spon

be e

pute

reper

ods i

to be

card

ceive

retur

M

ties :

to co

Some

turns

due

note.

an a

listin

file a

ment

own

tax e

feder

discu

of su

sure

wides

usual

Ac

Pre-typing names, addresses, etc. on personal income tax returns. There was no unanimity as to the benefits obtained from this interim operation. Some felt that the interim handling was an undue burden; others felt that if efficiently organized it was no deterrent. It appears that those who maintain tax files separately from accounting files could easily remove, progressively, a whole drawer of tax folders and turn them over to the typists. The typists copy names, addresses and other specified data on blank returns, instruction sheets, and mailing envelopes and then place them in the individual tax folders, after which the entire batch of folders is returned to the file drawer from which removed. This is worth a trial in offices that turn out a large number of returns annually.

Window envelopes for mailing tax returns. One member reported substantial time savings from the use of window envelopes for mailing tax returns. In this instance the instruction sheet is the face for the envelope. The instruction sheet form is arranged

MAX BLOCK, CPA (N. Y., Pa.), is a former chairman of the Committee on Administration of Accountant's Practice of the New York State Society of Certified Public Accountants. He is a lecturer at the Baruch School of Business and Public Administration of The City College of New York in the graduate course on Accounting Practice. Mr. Block is a member of the firm of Anchin, Block & Anchin.

to make visible the name of an individual to whose personal attention the mailing piece is directed.

Follow-up of tax return mailings. None of the group reported that any follow-up measures were taken, as a general policy, to determine whether clients received and properly disposed of returns mailed them, except for returns that were sent out very close to the filing date. In that event the client was informed, prior to the mailing or at that time, to be alert for the return and to promptly report the failure to receive it within a specified time. On occasion, returns were delivered or called for by messenger.

e who

, date

sec-

naper.

Others

lences

ctions

etc.

There

enefits

ation.

ndling

t that

o de-

who

m ac-

, pro-

fold-

pists.

s and

turns,

envel-

ne in-

h the

ed to

oved.

t turn

ually.

g tax

sub-

ise of

x re-

action

elope.

anged

The justifications expressed were that an extension of the service, to follow up on returns mailed, was unduly burdensome; also, that clear responsibility limits could not always be established and that boundary disputes had possibilities of unfavorable repercussions. Some follow-up methods might not, in themselves, turn out to be foolproof. For example, a post-card reply that a return had been received was not an assurance that the return would be timely mailed.

Most of the reported client difficulties stemmed from the clients' failure to complete and mail returns on time. Some clients misfiled or misplaced returns, particularly those returns whose due date was far ahead. (Editor's note. Some accountants mail to clients an annual tax calendar containing a listing of all due dates for returns they file and due dates for installment payments. This helps the client do his own policing.)

Advising clients of revised payroll tax deductions. The change in the federal social security rate developed discussion as to notification to clients of such changes as they occur, to insure timely compliance. Despite the widespread newspaper publicity that usually heralds a change in withhold-

The

## Accountants & Auditors Agency

a professional
employment service
for accountants—
by accountants—
directed by a C. P. A.

The

## Accountants & Auditors Agency

exclusively for public accountants private accountants office managers & bookkeepers

The

## Accountants & Auditors Agency

15 east 40th street new york 16, n. y. murray hill 3-0290 ing rates, some of those present reported that they had informed clients in writing of the prospective changes. Advice is also given about the use of time-saving payroll deduction charts and the necessity of getting new ones when rates change.

The creation of a New York State withholding requirement has necessitated an expansion of payroll tax deduction charts. One form in use provides the amounts for federal and New York State social security, income, and disability taxes on one chart, but it does not contain the totals of the federal and state taxes to be withheld. There is no doubt but that man's ingenuity will meet the test put to it by tax legislation.

Society members who would like to attend the monthly office managers luncheon may do so by writing to the Society and requesting that their name be placed on the monthly meeting notice list.

### MACHINE-PREPARED FINANCIAL STATEMENTS

In the December 1959 department reference was made to the preparation of financial statements by use of punched tape or punched card methods. One reader, Sigmund Bahr, CPA, responded with a letter describing his experience with machine prepared statements and incidental benefits therefrom. The text of the letter, reproduced below, has substantial significance.

### [TEXT OF LETTER]

My attention was called to your department in the NYCPA, December 1959 issue, with respect to "Machine-prepared Financial Statements." Among the types of clients I have serviced in this manner are included a foreign car dealer, a truck company, a food market, a retail chain of shoe stores and

others. An important advantage I have discovered is that I am able to concentrate on professional work knowing that a service bureau will accomplish the clerical, routine and mathematical part of my work. In this way it is easier to leave the client's premises within the alloted time and with enough information to assure the production of financial statements. The input machine that I use is an adding machine coupled with a punched paper tape device.

To provide an example of time saving effected, the firm with which I was previously connected spent an average of  $2\frac{1}{2}$  days a month on the audit of a foreign car dealer, submitting reports only twice a year. I now spend an average of  $1\frac{1}{2}$  days a month and submit tabulated financial statements each month. This time includes review of figures with client.

Another example of particularly good results involves setting up the records of a new business. This client. having operated his new business for five months, called on me to get him started. The usual procedure would have been to buy journals and ledger, laboriously write up his cash book, etc., and hope to come up with a tax return during the busy tax season. Knowing that most of my work would be done by machine, I resolved to produce a report for the five-month period and determine results for study and analysis. After discussing the facts relating to the client's purchase of the business, I reviewed with him all transactions and check disbursements, coding each check with a threedigit number. In three hours I had all the information including accruals and depreciation adjustments. In a few days I was able to return with a machine-printed general ledger and financial statements and received an enthusiastic reception.

ACCOUNTANTS OF VISION

# REFER YOUR CLIENTS TO JAMES TALCOTT, INC. for revolving capital funds to grow on

Do your clients have working capital problems arising from increased production, growing accounts receivable and inventories? Or have they a need to modernize plant and equipment to remain competitive? Or have bank lending services been lost for one reason or another? Talcott's Flexible Financing Plans can provide the revolving capital funds needed. Leading firms in almost every industry have grown profitably through the use of Talcott's specialized services. If your clients are looking ahead to progress, look to Talcott for financing plans derived from 106 years of credit and financing service to American industry.

Talcott Financing Services . . .

- · Accounts Receivable (Non-Notification)
- · Factoring (Notification & Non-Notification)
- Inventories and Equipment Mortgages
- · Industrial Time Sales · Leasing · Rediscounting

FOUNDED (BSS 7)

age 1

work work will act and k. In client's e and re the ments. is an th a

I was averaudit atting

spend

n and

s re-

alarly

the

lient,

s for

him

vould

dger,

ook.

a tax

ason.

ould

d to

study

the

hase

him

urse-

hree-

ruals in a ith a and

an

James Talcott, Inc.

FOUNDED 1854

221 Fourth Avenue, New York 3, N. Y. • ORegon 7-3000
Other Talcott Offices Serving: CHICAGO • DETROIT • BOSTON • ATLANTA • LOS ANGELES

### **Payroll Tax Notes**

Conducted by SAMUEL S. RESS

### TRANSFER OF EMPLOYER EXPERIENCE RECORD

A recent case decided by the unemployment insurance Appeal Board sustained the Industrial Commissioner's determinations increasing the employer's contribution rate and assessing additional contributions against the employer on taxable wages paid after the employer had transferred its assets and business to a successor who had become entitled to the employer's reduced unemployment insurance rate as of the date on which the transfer had taken place. Appeal Board Case No. 69,754-59 reversed the referee who had found that the employer continued to be entitled to the benefit of the reduced tax rate after the date of transfer.

Section 581.4 (b) of the Unemployment Insurance Law specifically provides that the contribution rate with respect to both the transferor and transferee for the year in which the transfer occurred shall be "redetermined." The interpretation which was placed upon the use of the word "redetermined" is that a new computation

must be made on the basis of the conditions which resulted from the transfer. In this case it had the effect of crediting the transferee with the entire experience of the transferor as of July 1 of the preceding calendar year, thereby entitling it to the reduced contribution rate, and the transferor must be deemed to have had no experience as of July 1 of the preceding calendar year because it transferred everything upon which its experience had been based.

payr part cale

trans

to to

trans

and

whic

ing,

apar

ques

tutec

occu

V. V

Sess.

p. 1

Hyla

failu

tax 1

ter 4

the 1

to al

lodg

falls

"lod

mote

The Board said: "Obviously, the assignment of the reduced contribution rate to the transferee can be authorized only if the right of the transferor thereto is relinquished. If both the transferor and the transferee were to enjoy the benefit of a reduced contribution rate based on the experience of only one, there would be a clear violation of the Federal standards because one of the employers would be enjoying a reduction which was not based on experience within the prescribed period. Since Section 581.4 (a) provides that it is the transferee who obtains the benefit of the experience, it necessarily follows that the transferor must surrender the right to such benefit."

If only a segregable portion of an organization, trade or business is transferred, then only the appropriate proportion of the account balance and other aspects of experience are allocated to the transferee, and the transferor continues to retain a part thereof. The allocation between transferor and

SAMUEL S. RESS, an associate member of our Society since 1936, is a member of the New York and Massachusetts Bar. He is engaged in public practice in his own office in New York City specializing in payroll taxation and labor-management matters. Dr. Ress was formerly a member of the Society's Committee on New York State Taxation and chairman of its Subcommittee on Unemployment Insurance.

ransferee is made in proportion to the payroll assignable to the transferred part during the last twelve completed calendar quarters before the date of transfer. In the alternative, the allocation may be made in proportion to the number of employees assignable to the part transferred if the transferred part was not in existence for twelve completed quarters before the transfer or if the transferring employer and the transferee jointly request allo-

con-

ans-

t of ntire July ear,

nust

ndar

een

the

bu-

au-

nns-

oth

rere

on-

nce

ear

be-

be

not

re-

1.4

ree

eri-

the to an ansro-ind ca-ror the ind

cation according to the number of employees and show that allocation according to payroll would be inequitable.

In the event of any business transfer in whole or in part notice must be given to the Division of Employment, Unemployment Insurance Accounts Bureau, before the end of the following year, if any effect is to be given to the transfer for experience rating purposes.

### New York State Tax Forum

(Continued from page 133)

which building, or portion of a building, is not in and of itself a hotel or apartment hotel. In a recent case, the question of whether a motel constituted a lodging house subject to this occupancy tax, was answered (People v. William Reilly, N. Y. Ct. of Sp. Sess., N. Y. Co., N.Y.L.J. 10/21/59, p. 14). In this case the corporation, Hylan Motel, Inc., was charged with failure to register and file occupancy tax returns pursuant to Title V, Chapter 41. The prosecution alleged that the local law imposing the tax applies to all types of accommodations for the lodging of transients and that a motel falls squarely within the definition of "lodging house." In holding that a motel is not subject to this \*tax, the court determined that the term "hotel" did not include "motel" and that the term "lodging house" is to be construed according to its meaning at the time of its enactment. Since, at the time of enactment of this occupancy tax, motels were not in existence, it appears they could not have been within the contemplation of this statute, and are accordingly exempt from this tax.

Therefore any motel operator who has paid this 5 percent occupancy tax within the last twelve months should apply for a refund thereof. In New York City such claim for refund must be made within one year from the date of payment (Section V41-7.0, Chapter 41, N.Y.C. Administrative Code).

### **Federal Taxation**

Decisions and Rulings-RICHARD S. HELSTEIN, CPA

Commentary

—Committee on Federal Taxation Chairman, Herbert M. Mandell, CPA

### DECISIONS AND RULINGS

**BUSINESS EXPENSES** 

The Treasury Department has recently issued a series of news releases warning of its campaign against the abuses of the business expense deduction. It has stated that it now plans to attack the situation from the employers' as well as from the employees' end. A recent release, accompanying TIR No. 198, dated December 29, 1959, gives an indication of the questions which the employer will have to answer covering the 1960 year. This enforcement program is tentative and subject to possible revision. There will be a further announcement after February 15. 1960. The Commissioner has asked for comments to be submitted prior to February 15, 1960. Set forth below is an extract from the release.

ENFORCEMENT PROGRAM OF THE SERVICE

- Information on Expense Account Allowances.
- (a) Corporation Form. Schedule E of Form 1120 (Corporations)—1960, "Compensation of Officers" is being expanded to include a section dealing with expense items. This schedule will require information, in addition to the payments designated as compensation, with respect to expense account

allowances paid to or on behalf of the officers and claimed as a deduction in determining net income. This information will be required of all corporate officers, except if there are more than twenty-five officers, the only with respect to the twenty-five highest paid officers based on the aggregate of compensation plus expense account allowances. exp que wit

ran resc

a I

incl tha tray

of bus

or

vac

Yes

vac

cus

cers

Yes

be

106

vidi

104

que

iten

3.

dur

a r

ente

of !

able

cou

RIC

is e

tion

Cor

stei

A

(b) Partnership Form. Form 1065 (Partnerships) will require similar information concerning all partners, including limited partners.

(c) Individual Form. Schedule C of Form 1040 (Individual Proprietorship) will require similar information with respect to the proprietor and the five highest paid employees (based on the aggregate of compensation plus expense account allowances), but it shall not be required that such information be submitted with respect to employees who receive in the aggregate less than \$10,000.

Definition. The term "expense account allowances" as used above means:

- 1. Amounts, other than compensation, received as advances or reimbursements, and
- 2. Amounts paid by or for the corporation, partnership or proprietor for expenses incurred by or on behalf of an officer, partner, employee or proprietor, including all amounts charged through any type of credit card.

This additional information will be helpful in disclosing cases in which payments which really constitute compensation are reported as expense account allowances or reimbursements.

2. Information on Certain Other Expenditures.

Form 1120 (Corporations)—1960 will contain questions along the following lines.

Did the corporation claim a deduction for expenses connected with: (If answer to any question is yes, check applicable boxes within that question.)

(1) A hunting lodge \_\_\_\_\_, working ranch or farm \_\_\_\_\_, fishing camp \_\_\_\_\_, resort property \_\_\_\_\_, or other similar facility \_\_\_\_\_? Yes \_\_\_\_; No \_\_\_\_\_.

(2) The leasing, renting or ownership of a hotel room or suite \_\_\_\_\_, apartment \_\_\_\_, or other dwelling \_\_\_\_\_ which was used by customers or officers or employees including members of their families? (Other than use by officers or employees while in travel status.) Yes \_\_\_\_\_; No \_\_\_\_.

(3) The attendance of family members of officers or employees at conventions or business meetings? Yes \_\_\_\_\_; No \_\_\_\_\_.

(4) Vacations for officers or employees, or members of their families? (Other than vacation pay reported on Form W-2.) Yes \_\_\_\_\_; No \_\_\_\_\_.

e offi-

deter-

vill be

ept if

, then

ighest

com-

ances

Part-

ation

mited

Form

1 ге-

ct to

paid

com-

ces).

nfor-

em-

less

ount

tion,

and

ora-

enses

part-

redit

elp-

ents

are

nces

(5) The use (in whole or in part) of a yacht or boat for: the entertainment of customers \_\_\_\_\_, the personal use of officers, employees or their families \_\_\_\_? Yes \_\_\_\_; No \_\_\_\_\_.

Similar questions, as appropriate, will also be added to the partnership return, Form 1065, and the business schedule of the individual income tax return, Schedule C (Form 1040).

An affirmative answer to any of these questions does not necessarily mean that the deductions claimed for any of these items will be questioned or disallowed.

 Examinations to determine adequacy of employers' business practices in connection with accounting by employees of business expenses.

A program is being initiated whereby, during the course of every examination of a return of a taxpayer who pays for travel, entertainment and other business expenses of his employees, the examining officer will ascertain whether the taxpayer uses acceptable business practices in requiring an accounting of business expenses incurred by

RICHARD S. HELSTEIN, CPA, has been a member of our Society since 1940. He is chairman of the Committee on Publications and was formerly a member of the Committee on Federal Taxation. Mr. Helstein is associated with J. K. Lasser & Co.

his employees. Where the taxpayer's method is found to be inadequate, the examining officer will make a list of the employees who received the expense allowances or reimbursements, and the amounts thereof, and the returns of those employees will be examined unless the employee has included the expense account allowances in income on his return.

VALUATION OF U. S. TREASURY BONDS IN GROSS ESTATE

A District Court has overruled Rev. Rul. 53-156. The Court ruled that U. S. Treasury bonds held by a decedent prior to her death, which were applicable at par in payment of estate taxes, were to be included in the gross estate at their fair market value at time of death (or, we assume, at the optional valuation date), even though the fair market value was considerably less than par.

The Court pointed out the anomalies inherent in the revenue ruling, which provides that to the extent the bonds may be applied at par in payment of estate taxes, the higher of par or market value must be used for their valuation in the gross estate; while bonds in excess of such possible application to taxes are to be valued at market value. Thus, two identical bonds would have two different values for inclusion in gross estate, or "two decedents, dying on the same date, with identical assets, would have different values ascribed to them by the Government if perchance one estate was subject to a marital deduction and thus paid a lower tax than the other." (Bankers Trust Co., Executor v. U. S., U.S.D.C., So. Dist. N. Y., 11/5/59.)

Where pertinent, claims for refund should be filed.

DEFERRAL OF TAX ON E BOND INTEREST

In order to facilitate its financing in the present high interest market, the Treasury has announced a bond program which effects a deferral of taxes on E bond interest. Commencing January 1, 1960, Series E savings bonds (upon which accrued interest is paid only at sale or maturity) may be exchanged for H bonds (which pay interest semi-annually). Although upon the exchange the current value of the E bond, including accrued interest, will be applied against the purchase price of the H bond, the accrued interest on the E bond is not taxable until the H bond is cashed or matures.

The H bonds are ten-year bonds and, if held to maturity, have an average yield of approximately 334 percent. The interest on the H bond is currently taxable.

### SALE OF ASSETS OR BUSINESS?

The members of a partnership transferred all of the property of the partnership to a corporation in a taxable exchange for stock. The corporation also assumed all the liabilities of the partnership. The partnership continued in existence after the sale, on which there was a loss, but its only activity was the holding of the corporation's stock. The partners claimed a net operating loss in the year of the sale and a net operating loss carryback to the second preceding taxable year.

This was denied by the Tax Court. It held that the effect of the transaction was a sale by the partners of their partnership interests rather than a sale by the partnership of its assets, since the substance of the transfer was the sale of a "going business." The fact that the partnership continued in existence for the rest of the year is "of no consequence" since it carried on no activities after the sale. Thus, the loss on the sale was a capital loss by the partners. Since Section 122(d)(4), IRC 1939 (similar to Section 172(d) (4), IRC 1954), provides that a capital loss may not be used in the computation of a net operating loss carryback except to the extent of capital

gains, the loss on the sale could not be used as a net operating loss carryback.

gro

jec

tha

poi

pai

the

the

the

ses

COL

dist

OW1

pol

pre

and

pro

et o

Col

pre

wer

ficia

MIS

corp

to a

CON

OF I

Ir

licity

cont

colle

cord

a tri

inco

for

wife

after

char

trust

butio

is tra

R

7

Furthermore, since one of the partners actually or constructively held more than 50 percent of the stock of the corporation, his share of the loss is not deductible in the year it arose pursuant to Section 24(b), IRC 1939 (similar to Section 267(b), IRC 1954). (Herbert A. Nieman, 33 TC No. 49.)

### LIFE INSURANCE PROCEEDS NOT TAXABLE TO STOCKHOLDERS WITHOUT INSURABLE INTEREST

A corporation owned insurance policies on the life of its president and paid the premiums thereon. Two of its stockholders, unrelated to the president, subsequently were designated as beneficiaries although ownership was retained by the corporation. Upon the death of the president, the insurance company paid the proceeds to the stockholder-beneficiaries who excluded the receipt from gross income.

The Commissioner taxed the proceeds received as income to the stock-holder on the basis that it was a constructive dividend from the corporation. The Tax Court upheld the Commissioner, but on a different basis. The Tax Court reasoned that because the stockholder had no insurable interest in the president, the policy constituted a "wagering contract" and that, therefore, the proceeds were subject to tax.

The 6th Circuit Court of Appeals reversed the Tax Court, holding that the life insurance contract was a valid one under the state law, that since there was insurable interest by the corporation and/or the insured at the time the policy was written, a subsequent assignment of beneficial rights did not invalidate the contract. Therefore the contract was not a wagering contract and the proceeds constituted insurance, which is excludable from

gross income.

be

ck.

rt-

eld

oss

se

39

30

 $\Gamma C$ 

oli-

nd

its

si-

/as

he

ice

he

ed

0-

k-

a -10 he is.

ise in-

n-

nd

ıb-

als

nat

lid

ice

he

he

se-

nts

re-

ng

ed

m

The Court also considered and reiected the Commissioner's argument that it was a constructive dividend, pointing out that the proceeds were paid directly to the beneficiaries by the insurance company pursuant to the provisions of the policy and that the corporation had no right to or possession of the proceeds. Since the proceeds were never property of the corporation, they could not have been distributed by the corporation. The ownership by the corporation of the policy and the payment by it of the premiums only affect the policy itself and "do not touch on the matter of the proceeds of the insurance." (Ducros et al v. Com., CA-6, 11/25/59.)

The question was not raised and the Court did not consider whether the premiums paid by the corporation were taxable as dividends to the bene-

ficiary shareholders.

#### MISCELLANY

Retention of "control" by a donor corporation over property contributed to a trust created by it, and leased back to the donor, negated its status as a gift. Hence, rentals paid by the donor to the trust are not deductible. (Burroughs Corporation, 33 TC No.

Although the Supreme Court has held that under the 1939 Code failure to file a declaration of estimated tax gives rise to only one penalty (Com. v. Acker, discussed in NYCPA, January 1960), an underestimate of tax filed late, gives rise to two penalties under the 1939 Code. (Rose Harkins, 33 TC No. 45.)

Losses sustained from damage to property caused by a "sonic boom" constitute casualty losses and are deductible under Section 165, IRC 1954

(Rev. Rul. 59-344).

Not surprisingly, the Tax Court has refused to allow as a deduction an embezzlement loss of a \$15,000 investment in a U. S. currency counterfeiting business. The loss arose when the taxpayer's partner absconded with his investment. The Court decided that to allow such a deduction would be against public policy! (Luther M. Richev. Jr., 33 TC No. 31.)

### COMMENTARY

CONTRIBUTIONS TO CHARITIES OF REMAINDER INTERESTS

In recent months, considerable publicity has been given to a charitable contribution plan suggested by various colleges and other institutions. According to the plan, a taxpayer creates a trust under the terms of which the income is distributable to the taxpayer for his life and, if he wishes, to his wife for the period she survives him, after which the principal goes to the charity. The taxpayer creating such a trust is entitled to a charitable contribution deduction in the year property is transferred to the trust in an amount

equal to the present value of the remainder interest (based on actuarial tables) passing to the charity. Furthermore, if appreciated property is transferred to the trust, the taxpayer's contribution deduction is measured by the fair market value of the property without incurring any tax liability on the appreciation. If the property is sold by the trustee, no capital gains tax is payable by either the taxpayer or the trustee since under Section 642(c) the capital gain is an amount "permanently set aside" for a charitable purpose. The principal may, in this manner be shifted into tax-exempt bonds,

with the taxpayer obtaining the benefit of the tax-free income.

Charitable deductions for gifts of remainder interests are not, of course, limited to plans sponsored by any particular institution. A taxpayer may set up an independent irrevocable trust to accomplish the same results (I.T. 3707, 1945 CB 114). The same theory has been applied where gifts have been made to charitable institutions. such as museums, of remainder interests in works of art, subject to life usage by the donor (Rev. Rul. 57-293).

One important question remains. Will the contribution to charity of the remainder interest in the trust qualify for the extra 10-percent limitation under Section 170(b)(1)(A) if the remainderman is a church, an educational organization, or a hospital?

For the purpose of the general 20percent limitation, contributions to or for the use of a charitable organization qualify. The extra 10 percent, however, is applicable only for gifts "to" the specified organizations. Thus, the answer to this problem revolves around the question of whether a gift of a remainder interest is "to" or "for the use

of" the charity. In a Letter Ruling. dated February 11, 1959, it was held that a contribution of a remainder interest to a college qualified for the extra 10-percent limitation. The ruling did not mention a prior ruling (Rev. Rul. 57-562) wherein it was held, for a different purpose, that a remainder interest was "in trust for" and, therefore, "for the use of" the charity; nor did it otherwise discuss the "to" or "for the use of" question. The same conclusion was arrived at in another Letter Ruling, dated January 6, 1959, in which the recipient of a vested remainder interest was a church.

prin

ing

mei

acc

whe

COI

DIO

exp

rett

ded

turi

froi

of

by i

min

cha

pen

uto

and

and

seen

whi

be

inas

nor

pal

COV

dec

Hui

Cor

con

exe

law.

dist

wer

esta

rule

wer

the

esta

com

cord

the

Tax

con

exp

I

ŀ

The view of the Internal Revenue Service on qualification for the 10percent limitation as expressed in the two Letter Rulings would appear to be correct. The contribution today of a vested remainder interest to the charity is a contribution "to" the charity even though the charity does not receive the trust property until such time as the trust terminates. Nevertheless, the question cannot be considered free from doubt until Rev. Rul. 57-562 is clarified.

### ESTATE TAX DEDUCTION FOR EXECUTOR'S INCOME COMMISSIONS

Executor's commissions can be deducted on either the estate tax return or the fiduciary income tax return of the estate. Such commissions may, at the election of the executor, be deducted in their entirety on either return, or may be split between the returns, as in the case of other administration expenses.

Executor's commissions in most states, including New York, are based upon: (1) principal received and paid out, and (2) income received and paid out during administration. On the estate's books the commissions applicable to principal receipts and disbursements are charged against the

### **COMMITTEE ON FEDERAL TAXATION**

HERBERT M. MANDELL, CPA, Chairman, Clarence Rainess & Co. NORMAN E. AUERBACH, CPA, Lybrand, Ross Bros & Montgomery BERNARD BARNETT, CPA, Apfel & Englander STANLEY H. BECKERMAN, CPA, Eisner & Lubin SIDNEY BLUMENBERG, CPA, own account PHILIP D. BRENT, CPA, B. Waltzer & Co. LEONARD H. CARTER, CPA, Blumberg, Block & ALBERT H. COHEN, CPA, Price Waterhouse & Co. ARTHUR J. DIXON, CPA, Oppenheim, Appel, Payson & Co.

NATHAN EIDENBERG, CPA, S. D. Leidesdorf & Co. HARRY Z. GARIAN, CPA, Haskins & Sells J. R. GOUGH, CPA, Arthur Young & Co. BERNARD KAYE, CPA, Seidman & Seidman PETER J. LABARBERA, CPA, MacDevitt & LaBarbera

JOSEPH R. LEVEE, CPA, Touche, Niven, Bailey &

WILLARD R. POWELL, CPA, Ernst & Ernst LEONARD B. SALWEN, CPA, Anchin, Block & Anchin LEO SPANDORF, CPA, Kohleriter & Spandorf

principal account, while those pertaining to income receipts and disbursements are charged against the income account.

uling.

held

er in-

the

rul-

uling

was

at a

for"

' the

scuss

tion.

d at

anu-

nt of

as a

enue

10-

the

r to

y of

the

har-

not

such

ver-

isid-

Rul.

de-

re-

tax

nis-

ex-

rety

be-

of

ost

sed

aid

aid

the

pli-

dis-

the

The question has arisen as to whether commissions based upon income during administration can be properly treated as an administration expense deduction on the estate tax return, or whether such fees can be deducted only on the income tax rerum of the estate. This question arises from the fact that, with the exception of executor's commissions measured by income received and paid, other administration expenses are normally chargeable to principal. These expenses would ordinarily include executor's commissions on principal, legal and accounting fees, custodian charges, and other similar items. There would seem to be an apparent inconsistency to permit executor's commissions which are chargeable against income to be deducted on the estate tax return, inasmuch as the estate tax return is normally concerned only with principal assets and payments.

However, the Tax Court specifically covered the point in question in its decision in the Estate of Debe W. Hubbard, 26 TC 183 (1956). The Commissioner had maintained that commissions computed and paid to the executor in accordance with Alabama law, based upon income received and distributed after the decedent's death, were not allowable deductions in the estate tax return. The Court, however, ruled that such income commissions were properly deductible. It noted that the amount of the commissions was established by the Probate Court and computation had been made in accordance with the applicable statute.

In its decision the Court emphasized the view contained in a prior Board of Tax Appeals case that the important consideration was whether or not the expenses could be regarded as ordinary expenses incurred in administering an estate. It also indicated that it was clear that the estate was not engaged in a trade or business and that the activities of the executor were directed towards the distribution of the estate's assets. Although the administration of the estate had continued for an extended length of time, the administration period was not unduly prolonged considering the litigation, the problems involved, and the sums to be distributed.

It would appear, therefore, that where an estate's administration goes forward in normal course and distribution and settlement are completed within a reasonable time, an executor's commissions based on income received and paid during the administration would be classified as administration expenses and, as such, may be deducted in computing the estate tax if the executor so elects.

## AN OFFER IN COMPROMISE CAN BACKFIRE

A procedure which, we are informed, is followed in some Internal Revenue Service districts may present a serious tax trap. When a tax return is filed late, a penalty for late filing is automatically assessed, even though the taxpayer may be able to show that the late filing was due to reasonable cause and the penalty should not be applied. In some Internal Revenue Service districts when the taxpayer is able to show that the penalty is inapplicable, the taxpayer is asked to execute an offer in compromise. Here is an example of the harsh results that can follow if an offer in compromise is executed under these circumstances.

A company filed Form 7004, Application for Automatic Extension of Time to File U. S. Corporation Income Tax Return, for the calendar year 1956. The application was timely

### EXPERT STATISTICAL TYPING

High standards of quality work, exclusively for C.P.A.s, typed on IBM electric typewriters and thoroughly checked.

## BRUNING REPRODUCTION OF TAX RETURNS AND REPORTS

Government approved methods. Free pick up and delivery.

EMILY GAGLIANO
Ave. J & 16th Street
Brooklyn 30, N. Y.
CLoverdale 8-5090

18 years C.P.A. experience

filed but was held invalid by the Internal Revenue Service because the company did not remit the required estimated tax payment with the application. A penalty for late filing was then assessed. Later, at the suggestion of IRS representatives, Form 656, Offer in Compromise, was executed and accepted on the basis of payment of about 10 percent of the penalty, plus interest.

of

no

ca

ce

lo

re

co

re

of

Re

AN

co

tio

pa

cha

sto

and

tio: obt

for

obt

gai

COV

hol

pet

Joh 268

with

obt

or i

The company sustained a loss for the year 1957 sufficient to eliminate taxable income in the carryback years 1955 and 1956. Application for Tentative Carryback Adjustment, Form 1139, was filed for each of these years. The Internal Revenue Service then took the position that because an offer in compromise had been accepted for the year 1956 no refund could be made for the 1956 tax as a result of the net operating loss carryback.

Apparently analogous cases had

## Accountants Liability Insurance

Over 560 New York Accounting Firms are now taking advantage of the new and improved Accountants Liability Insurance Plan available to members of the New York State Society of CPAs.

- Low net premium cost.
- · Broad policy conditions.

For details contact

## HERBERT L. JAMISON & CO.

270 MADISON AVENUE, NEW YORK 16

MUrray Hill 9-1104

been referred to the National Office of the Service which determined that no refund can be made on account of a net operating loss which would be carried back to a year for which an offer in compromise had been accepted. Moreover the net operating loss deduction available for carryback or carry-forward to other years will be reduced by the income in the year of compromise even though the taxpayer receives no tax benefit. This position of the Service is reflected in Proposed Regulations Section 301.7122-1(c).

## RESTRICTIVE COVENANTS AND SECTION 337

e In-

e the

uired

appli-

was

estion

656.

cuted

ment

nalty.

s for

inate

years

Ten-

Form

years.

then

e an

epted

ild be

ult of

had

An interesting question has arisen in connection with the sale of assets of a corporate business followed by a Section 337 liquidation, where a separate payment is being made by the purchaser for restrictive covenants of the stockholder-employees.

The specific factual situation is that the selling corporation is selling assets and goodwill for a specified consideration. The buyer is insisting upon obtaining covenants not to compete from the two stockholder-employees, for which it is willing to pay a separate consideration. Is there a possibility of obtaining for the stockholders capital gain treatment for payments under the covenant?

It has long been established that amounts received by employee-stock-holders for their covenants not to compete with the purchaser of the corporate assets are ordinary income rather than capital gain (Estate of John D. Beals v. Comm., 82 F. (2) 268, 1936).

It has been suggested, in connection with the offer of the purchaser to buy the assets, that the seller undertake to obtain from the employees their restrictive covenants running to the seller or its assignees. Such covenants would

then be transferred to the buyer in connection with the sale, the selling corporation receiving the separate consideration therefor. Upon subsequent liquidation of the corporation pursuant to Section 337, the corporation would not pay any tax on the sale of the contract. However, the proceeds of the sale of the covenant would be distributed to the stockholders and possibly be taxed as their capital gain.

Section 337 excludes from the corporate tax, gains from the sale of property within the twelve-month period. If the restrictive covenant, when held by the seller corporation, is property, then payment for it would be excludable from the corporate seller's income. The concept of property for the purposes of Section 337 should not be confused with the definition of property for capital gain purposes. The courts have accepted the view that, while contracts are property, not all property rights constitute capital assets. (Jones v. Corbyn, 186 F. (2) 450. 1950). A Circuit Court defined property as "a word of very broad meaning and when used without qualification. may reasonably be construed to include obligations, rights and other intangibles as well as physical things. Property within the tax laws should not be given a narrow or technical meaning." (Citizens State Bank of Barstow, Texas v. Vidal, 114 F. (2) 380, 1940).

Any possible consummation of a plan of this nature should be considered carefully in view of the fact that while a contract or right to refrain from performing services may be deemed property, the courts are reluctant to permit gain on the disposition of such an asset to be treated as capital gain. However, it may be that by reason of the different standard for property under Section 337, capital gain may be obtained where the selling corporation disposes of the contract.

### Classified Section

RATES: "Help Wanted" 20s a word, minimum \$3.00. "Situations Wanted" 10s a word, minimum \$2.00. "Business Opportunities" 15s a word, minimum \$3.00. Box number, when used, is two words. Closing date, 10th of month preceding date of issue.

ADDRESS FOR REPLIES: Box number, The New York Certified Public Accountant, 355 Lexington Avenue, New York 17, N. Y.

#### HELP WANTED

CPA Firm, upstate New York, requires CPA with tax research experience, small staff, good opportunity. Box 1956.

CPAs, of partnership potential, by mediumsized firm for their New York City office, one or two young men, preferably in business for themselves, to work either on full time or per diem basis until we can evaluate their worth, in reply, please give full details. Box 1957.

#### SITUATIONS WANTED

Immediately Available, accountants, office managers, bookkeepers. Bookkeepers & Accountants Division, Maxwell Employment Agency, 130 West 42nd Street, N. Y. C., telephone LOngacre 4-1740.

CPA, Society member, 14 years public accounting experience, wishes per diem arrangement, seven days per month. Box 1964.

CPA, age 45, 20 years extensive public accounting experience, available eight days per month, your convenience. Box 1965.

CPA, tax experience, seeks per diem arrangement with accountants involving tax preparation or checking, research, etc. Box 1966.

Bookkeepers, full charge or assistants, secretaries, clerks, applicants of ability, neat appearance, and good education. Larkin Agency, OXford 5-2668, established 1935.

CPA, diversified tax and auditing experience, seeks per diem work up to eight days monthly, member NYSSCPA, AICPA. Box 1969.

### **BUSINESS OPPORTUNITIES**

Mail and Telephone Service, desk provided for interviewing, \$7.00 per month, directory listing. Modern Business Service, 505 Fifth Avenue (42nd Street).

Practice Wanted, substantial terms, knowhow offered overburdened or retiring practitioner, CPA. N. Y.. N. J.. AICPA, IE, MBA. Box 1958. Well Equipped CPA Firm, will purchase all or part of the practice of overburdened or retiring accountants, substantial cash or attractive retirement arrangements will be offered. Box 1959.

Cl sta re

In

wi

ne CI off

W

CI

M

70

DE

me

CP

nis

341

tim

CP

suit

tion

pos

ship

We Act As Your Secretary, mail, telephone service, \$5.00 per month, mail and messages forwarded, private desks and offices available, convenient to all transportation. Abbott Service, 147 W. 42nd St., Cor. Broadway.

Mail, telephone, listing, desk space, in private and semi-private new attractive offices. Radio City Business Service, Inc., 570 Fifth Avenue, New York 36, N. Y., CIrcle 5-3111.

CPA, 16 years accounting experience, very heavy tax background, desires purchase or manage practice or individual accounts, consider any equitable arrangement. Box 1960.

Fireproof insulated legal and letter size filing cabinets, used, refinished like new, 2, 3, 4 drawer. Krasilovsky, 245 Canal St, CAnal 6-2255.

Upstate CPA, wishes to acquire practice or individual accounts in or near Oneida. Onondaga, Oswego, Madison and Lewis Counties. Box 1961.

CPA Firm seeks to share office space midtown, three man staff, finest references. Box 1962.

CPA, Society member, 14 years public accounting experience, sustaining practice, some free time, wishes association overburdened practitioner. Box 1963.

Air-conditioned attorney's suite, private rooms, recently completed, beautiful decorfacilities, extra space available during tax season, individual or small firm, moderate. WOrth 2-1655.

One Writing Payroll System, \$16.50, complete in a spiral pad, free demonstration Striad Company, 12–21 35th Avenue, L. I. C. 6, N. Y., EX 2-0693.

Private Office available in CPA suite. 12 x 8½, prime building in Grand Central area. Box 1967.

### BUSINESS OPPORTUNITIES

CPAs, requiring in midtown area, two rooms, staff room, library space and room for secretary, desire to share space, commencing June 1960, seek connection with firm which will have space available then or which would form combination to find and open new office. CO 7-1550.

two

ton

ase all

ned or

sh or

vill be

phone

essages

avail-Abbott

adway.

in pri-

offices.

Fifth

-3111.

, very

ase or

, con-

1960. r size

new,

neida. Lewis

midences.

ic ac-

actice. erbur-

rivate

decor.
g tax
lerate.

ation.

12 x

area.

CPA, 261 Broadway, N. Y., has private office to share, including telephone, \$45.00. WO 2-0570.

CPA, N. Y., N. J., AICPA, NYSSCPA, MBA, age 40, \$25,000 practice, can arrange 10% free time, seeks merger with larger practitioner, or partnership interest, substantial cash available, and very attractive retirement arrangement. Box 1968.

CPA, without staff, desires office space, furnished or unfurnished, from May 1, 23rd to 34th Street, also able to furnish available time. ORegon 4-3535.

CPA, with fully equipped beautiful CPA suite, midtown, with gross of \$40,000, desires arrangement with individual practioner, men and space to be shared with possible arrangement resulting in partnership. Box 1970.

TIME DEPOSITS
ESTABLISHED
AT YOUR CLIENTS' BANK
6 MONTHS TO 5 YEARS
ANY AMOUNT ABOVE
\$10,000

KOENIG-FREUND, INC. 355 Lexington Ave., N. Y. C. 17 MU 2-0323



Investment Information

42 Broadway New York 4, N. Y. DIgby 4-7140

JUSTIN JACOBS
Peter P. McDermott & Co.

# ozalid-bruning tax form reproduction

- Government approved methods
- Free pick-up and delivery in Manhattan

## 24 hr. delivery guaranteed

Call or write for price list

BEE photocopy, inc. PL-1-0440

415 Madison Ave., N. Y. C. 65 East Fifty-Fifth, N. Y. C. 120 East Fifty-Sixth, N. Y. C.

## BOOKKEEPERS UNLI MITED AGENCY IS ST AFFED BY SEVEN FR IENDLY BOOKKEEPERS







**OXFORD 7-7878** 













## Mr. Accountant

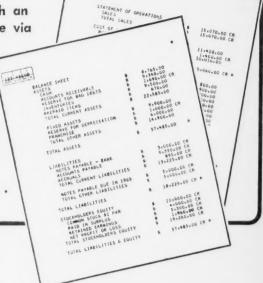
123 452 cg

NOW through an adding machine via punched tape

the

### LITAB SYSTEM

can tabulate your clients' financial statements for you . . .



.... and is completely flexible to perform any recording service from a small write-up to a complex consolidated financial statement

The LITAB System accommodates up to 630 general ledger accounts and up to 99,000 subsidiary ledger accounts

SALES ANALYSES JOB COSTS PERPETUAL INVENTORIES CHARGE ACCOUNTS **VOUCHERS PAYROLLS** STATISTICS

Brochure on Request

LITAB

Division of LONG ISLAND TABULATING CORPORATION

384 CLINTON STREET . HEMPSTEAD NEW YORK . IVanhoe 1-9460

Directed by a Certified Public Accountant • Placements throughout U.S. and abroad in small companies and giant corporations; in small and national CPA firms • Careful Screening • Strict adherence to job specifications • Thermo-Fax copies of resumes prepared when requested • Two offices, New York-Queens • Pioneers in accounting placements.

THE

**ACCOUNTANT-FINDERS** 

## ROBERT HALF

PERSONNEL AGENCIES

130 W. 42 STREET, N. Y. C. 36

LOngacre 4-3834

### PUBLIC

Supervisors Seniors Semi-Seniors Juniors Tax Men Systems Men Stat. Typists

### CORPORATE Controllers

Asst. Controllers Office Managers Treasurers Cost Men Internal Accountants Chief Accountants Internal Auditors **Financial Analysts Budget Analysts Investment Analysts** Systems Analysts Fiduciary and Trust Accts. **SEC Specialists IBM Specialists IDP Specialists** Consolidation Accts. **Property Accountants Payroll Supervisors** Accts. Payable Super. Accts. Receivable Super. Govt. Contract Admin. Tax Men Credit Managers Bookkeepers

Our files of internal accountants include thousands of persons from large and small industry. Our rapid checking system permits us to select competent applicants by job-classification and by industry specialization. For example: A Controller with ad agency experience; A Chief Accountant from a major metal products firm; A Bookkeeper with a textile background.

